SOCIOLOGY

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

TOBER 24, 1936 35 CENTS

PUBLISHER

The Market After Election

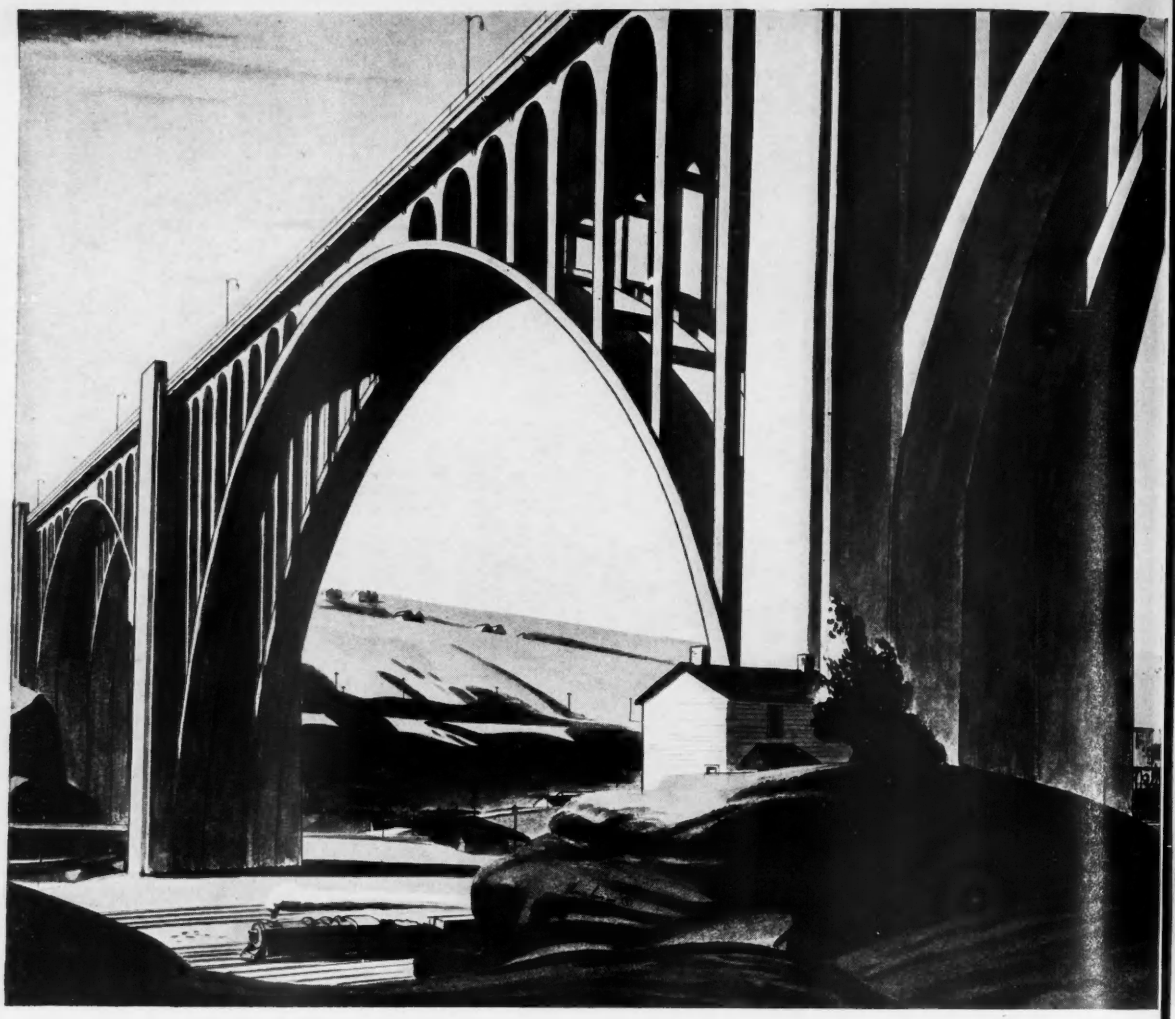
By A. T. MILLER

World Currencies and The Dollar

By H. M. TREMAINE

A New Future For I.T.&T.

By FRANKLIN KIMBALL



LASTING MONUMENTS

With its graceful columns towering mountain-high above the busy lowlands it spans, the George Westinghouse Memorial Bridge affords Lincoln Highway travelers a smooth, fast route for entering or leaving the city of Pittsburgh. It affords them also a commanding view of another tribute to the memory of George Westinghouse — the headquarters plant of the electrical manufacturing company which his genius founded and has inspired throughout its fifty years of achievement.



Electrical arc-welding is one of the many fields in which Westinghouse enterprise has won recognition of leadership. Quite appropriately, all reinforcing metal in the Westinghouse Memorial Bridge was welded by this modern method.

• • •

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THE MAGAZINE OF WALL STREET

and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Volume 59 No. 1 October 24, 1936

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CONTENTS

THE TREND OF EVENTS 5
As I See It. By Charles Benedict 7
The Stock Market After Election. By A. T. Miller 8
Happening in Washington. By E. K. T. 10
The Dollar and World Currencies. By H. M. Tremaine 12
Motor Sales and Profits for 1937. By George L. Merton 14
How to Get the Most from Your Investments. By J. S. Williams 17
International Telephone & Telegraph Co. By Franklin Kimball 20
Tax on Security Profits Abolished? By M. L. Seidman 24
Significant Foreign Events. By George W. Berkalew 26
The Outlook for Steel. By Ward Gates 28
The Supreme Court Will Decide. By Theodore M. Knappen 30
The Building Stocks. By J. C. Clifford 32
Mathiesen Alkali Works. By Phillip Dobbs 34
Cotton Must Go Up. By C. S. Burton 36
For Profit and Income 38
Understanding Today's Market Fluctuations.
By Frederick K. Dodge 40
Common Stocks for Current Purchase
Baltimore & Ohio R.R. 42
Shell Union Oil Corp. 43
Foster Wheeler Corp. 43
Air Reduction Co. 64
THE BUSINESS ANALYST 44
Essential Statistics 47
ANSWERS TO INQUIRIES 48
New York Stock Exchange Price Range of Active Stocks 50

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SUBSCRIPTION PRICE—$7.50 a year in advance in the United States and its possessions, Canada, and Pan-American. Foreign, $8.50. Please send International Money Order or U. S. Currency.

TO CHANGE ADDRESS—Write us name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to the new address.

EUROPEAN REPRESENTATIVES—International News Co., Ltd., Breams Bldg., London, E. C. 4, England.

Cable Address—Tickerpub.

Oct. 24, 1936 - Apr. 10, 1937
R 332.6 v.59
MAY 24 1938 N. A

With The Editors



Who Said Opportunity Is Dead?

You remember the man who could prove that the motor industry had reached the saturation point of its markets and therefore would revive with difficulty if ever? He was of the same mind as the chap who knew that this country was so overbuilt that building construction could not come back. The type always reminds us of that famous director of the patent office who resigned in 1844 because he foresaw that little, if anything, remained to be invented. Opportunity was dead!

Of course today there are those equally myopic. There are some business men afraid to see further improvement. There are investors who complain of the absence of investment opportunity. The best, they say, has already been seen, or if not yet seen, then discounted.

Now we have no inclination to revive any "new era" doctrine nor do we view the prospect through such rose-tinted glasses as to see unending or uninterrupted prosperity. We are deeply conscious of the fact that political and foreign factors are prominent in the current equation. On the other hand our everyday observation places us squarely on the opposite side of the fence from the Jeremiahs.

There is no denying the fact that certain industries do, in time, reach limits of growth—that there is such a thing as economic maturity. But, at the pace which modern science is advancing, we also recognize the vigorous new industries and new products which are continually springing up to replace or rejuvenate the senile.

So long as research advances how can there be a dearth of opportunity in business or investment?

Consider for a moment the new products and new industries that chemistry has recently given us—the plastics, from which everything from umbrella handles to wall coverings are made—cellophane, synthetic rubber, dyes, rayon and a host of medicinals. Think of the new uses for wood even to the production of food and motor fuel; what new things are being done with glass—not only the safety glass that is familiar to every motorist, but the new glass fabrics—glass wool for insulation. You may be wearing the stuff before you know it. New alloys of steel, copper, nickel, new metals such as molybdenum and chromium, are becoming commonplace as markets daily broaden in demand for them.

Conjure up a petroleum shortage if you will, but at the same time remember the potentialities of producing fuel and lubricants from coal, waste wood or other products. Paint a dire picture of the farm problem if you will, but consider also that the farm is the greatest potential source of raw material for industry — witness the acres under cultivation for soy beans and the uses that have been found for them—we eat them in one form or another, grasp them in our hands in yet another state when we take hold of the steering wheel of our car. The farmers may lose their market for cotton, but flax that can be grown from the same soil has yet to give us the cheap linen that can be spun from the same machinery.

Human ingenuity is not dead, it has not even languished. Industry is pressing forward, utilizing machinery and the laboratory to produce new markets and garner new profits. Opportunity in this reviving cycle has only started to unfold.

Important Notice to Readers

In view of the important bearing which the forthcoming national election may have on the security markets and on business developments, the next issue, of November 7, will not go to press until the presidential choice is known. This may occasion some slight delay in subscribers' receipt of copy as well as in the appearance of the issue on the newsstands. We are confident however that readers will be indulgent of a brief delay in order that conclusions may take the election outcome into consideration.

For features appearing in the next issue see page 58



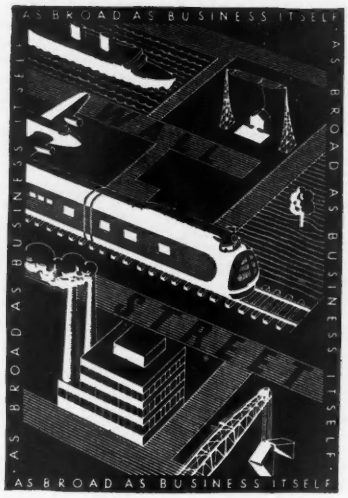
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Steel Operations are Rapidly on the Way Back to Boom Time Levels

(See page 28)

THE MAGAZINE OF WALL STREET

E. KENNETH BURGER, *Managing Editor* : C. G. WYCKOFF, *Publisher* : THEODORE M. KNAPPEN, LAURENCE STERN, *Associate Editors*



The Trend of Events

BETTER TIMES AHEAD . . . Soon the thunder of political oratory will be stilled. The rancor, bias and buncombe of innumerable partisan speeches will be forgotten. The nation will have chosen a President, the loser will have bowed to the choice with good grace —and business will go on as usual, neither fearful of political destruction nor hopeful of a governmentally-planned Utopia.

We are going on to better times. The remaining two months of 1936 will round out a year of progress, of rising volume in industry and trade, of increased profits and dividends, of expanding employment and national income—and 1937 will be a still better year. Why? Because the fundamental direction of the American system always has been forward and still is; because major depressions are but temporary interruptions in our path; because recovery founded solidly on the adjustments made in depression never stops short of new peaks of achievement and well being.

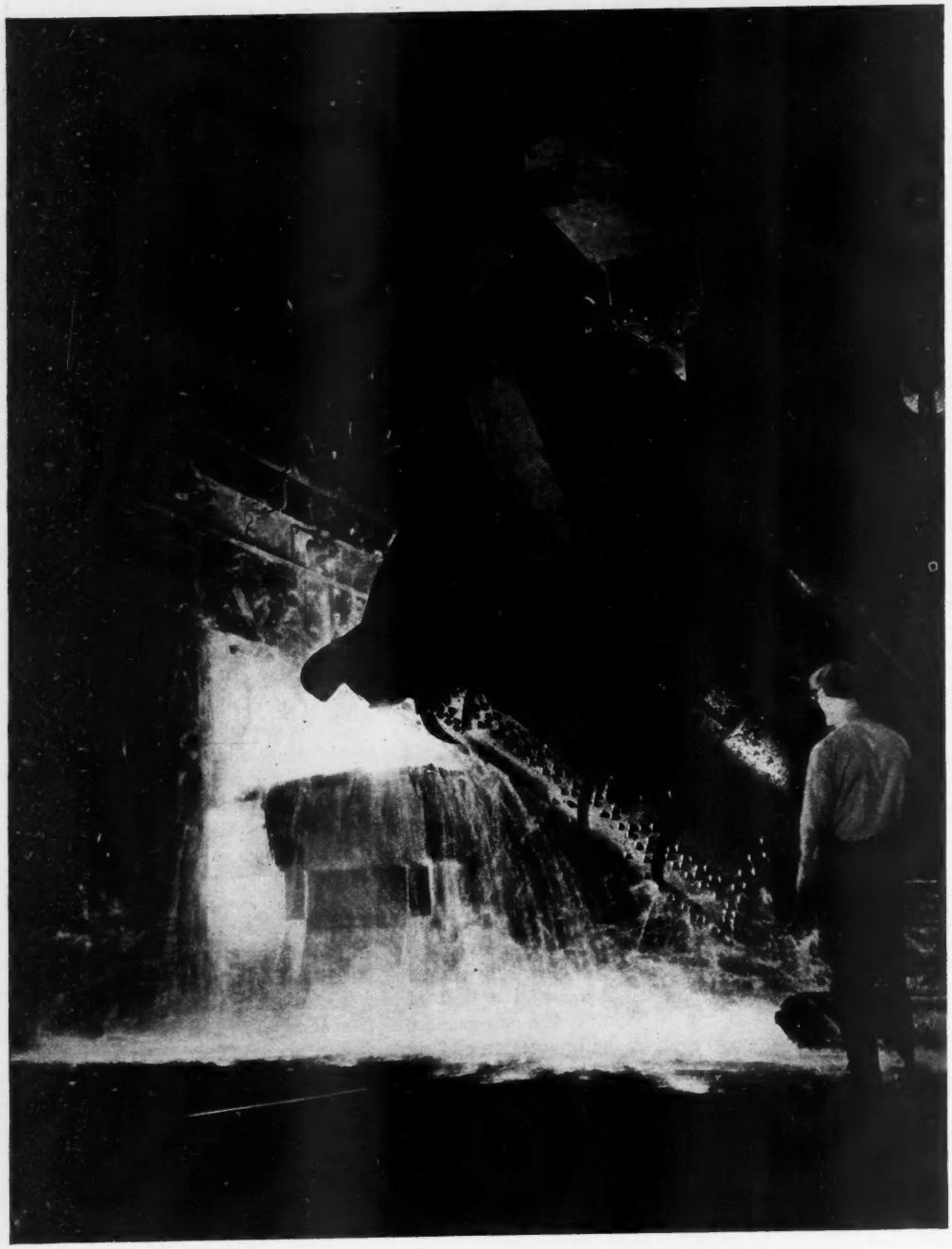
Political administrations come and go. Under none have we had infallible leadership. Under none has the economic cycle of boom-depression-boom been successfully controlled as yet. The incumbent administration gets credit for prosperity, blame for depression. So it will always be. Nor is this as illogical as it used to be, for here, and in almost all countries, government has assumed the obligation to manage money and credit, price levels, interest rates. Increasingly it will be held responsible for the results, good or bad. As far ahead as we can now see, the results will be good. If at a distant time we come another cropper, we will learn whether a governmentally-managed depression is any worse than the privately managed depressions of the past.

AS OTHERS SEE US . . . It is difficult for any American to be wholly objective in appraising the New Deal. In far away London Sir Walter Layton, editor of The Economist, has calmly and judiciously analyzed the Roosevelt policies in a lengthly supplement of his journal. As do most intelligent Americans, he finds good and bad.

The relief program is criticized for waste and inefficiency; P W A has played only a small part in priming the pump of recovery; an excellent job has been done in refinancing urban and rural mortgages and in fostering the innovation of the long term, amortized single mortgage; the N R A was ineffective and "more of a muddle than a policy"; nature has done more for the farmer than Secretary Wallace and the A A A.

President Roosevelt's handling of the banking crisis merited universal praise; the policies of deposit insurance, R F C help and cheap money have been "amazingly successful"—perhaps too successful, as the liquidity of the banks and ease of the money market are an invitation to repetition of unsound expansion. It remains to be seen whether the improved credit controls will be wisely and effectively used.

Deficit expenditures neither delayed spontaneous recovery nor created it, but filled the gap until spontane-



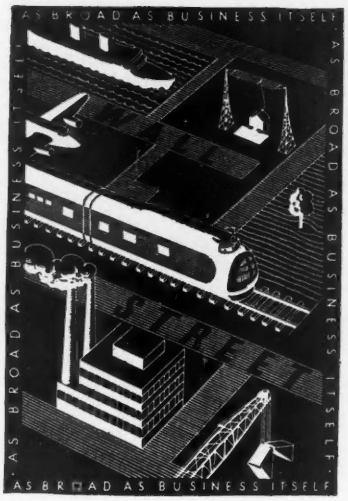
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Deficit expenditures neither delayed spontaneous recovery nor created it, but filled the gap until spontane-

ous recovery appeared. Further increase in Federal debt will not impose an intolerable burden. The method of financing the deficit is more to be criticized than the gross amount. The stimulus resulting from dollar revaluation was smaller than is sometimes claimed. Whether the dollar should have been depreciated is "too difficult a question of economic ethics to be settled here," but the end seems to outweigh the means. The dollar is still undervalued.

"No praise can be too high for the spirit that has animated the policy of reciprocal trade agreements. In a tariff-ridden world the sight of a nation seeking to lower its tariffs is rare and refreshing. While praising the principle and spirit of these agreements, it is permissible to express skepticism of the results." There is little sign that the agreements have brought very large quantitative benefits, although trade is up from bottom.

Whether the protection accorded the investing public by New Deal legislation is commensurate with the restriction forced upon the markets is a difficult question. These prohibitions "have outrun the possibilities of enforcement," as is typical of American legislation.

Technically, the American power industry leads the world; but its financial history is rather dubious. The precise degree of control that will satisfy the public and be acceptable to the industry has not yet been defined. It will have to be evolved slowly by the combined efforts of Congress and the courts.

Such, in brief, has been the New Deal as seen from London by an impartial and skilled economic and political observer. To Americans who have not yet decided how they will vote in the coming election, it may offer some help in rational thinking.

INVENTORIES ARE NOT LARGE . . . Aggregate inventories of raw materials and of finished goods have been reduced approximately 40 per cent since November, 1933, according to the United States Department of Commerce. Taking the period 1923-1925 as 100, the index of all inventories has dropped to 101, as compared with 171 three years ago. Since business was at a stable and reasonably prosperous level in 1923-1925, it may be held that inventories now are virtually "normal."

It must be remembered, however, that since 1925 the population has increased by some 15,000,000 individuals or about 12 per cent. Hence it would appear that on a per capita basis inventories generally are below the former "normal," yet this is not necessarily so, for the past decade has brought a considerable increase in the speed with which goods are delivered and a corresponding tendency of business men to carry smaller stocks.

Nevertheless, from a long term point of view, the evidence indicates that inventories are in generally healthy relationship with the rising trend of demand. The short term position is something else again. Periods of over-stocking can at any time induce a temporary setback. Some observers see a warning note in recent active forward buying by merchants and boom activity in textiles. Autumn trade will tell, and by all present evidence it is going to be very good.

FLOOD TIDE OF DIVIDENDS . . . It is going to be a very merry Christmas for investors, because the number and amount of dividend declarations between now and mid-December will set a new all time high. Santa Claus has nothing to do with the matter. Business recovery has swelled corporate profits. The Federal tax on undistributed earnings is forcing the distribution of profits in abnormal amount.

In September 135 extra dividends were declared and 124 companies increased their dividends. In amount, the total of September dividend distributions was 23 per cent larger than a year ago. Since this gain was smaller than the gain in aggregate corporate profits over the same period, it can be expected that the flood tide of dividends is yet to come. The first half of October brought increased dividends by 58 companies.

Dividends for the majority of companies whose fiscal year coincides with the calendar year, must be in the hands of stockholders prior to January 1 to be credited in the corporate income tax returns that will be filed next March. Many companies with large profits will delay the reckoning as long as possible in order to figure their potential tax liability with maximum accuracy. Dividends will come forth in a rush around the Christmas season.

STABILIZED WAGES . . . The General Electric Company has adopted a plan to adjust wages upward or downward, within reasonable limits, in accord with the rise or fall in the cost of living as shown by the official index of the United States Department of Labor. This is a notable development in employer-employee relations, the operation of which will merit watching by other corporations. It represents industrial statesmanship at its best—which is nothing new with this particular enterprise.

The plan was inaugurated with a 2 per cent increase for all employees earning less than $4,000 a year, although purchasing power of average weekly wages before the increase exceeded that of 1929. Further increases will be granted, corresponding to further rise in the cost of living, up to a maximum of 10 per cent above the level prevailing when the plan was adopted, after which the plan will be reconsidered. Downward adjustments will not go below the wage level prevailing before establishment of the new system. Within the limits prescribed, this would seem to be a practical "commodity dollar" for wage purposes.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 8. The counsel embodied in the feature should be considered in connection with all investment suggestions, elsewhere in this issue. Monday, October 19, 1936.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS · 1907 — *"Over Twenty-Eight Years of Service"* — 1936

As I See It!

BY CHARLES BENEDICT

HAS THE NAZI DECLINE BEGUN?

At some time in the future it may be well recorded that the decline of Nazism in Germany began with the various European developments during the latter part of September and early October, 1936. I refer to three significant events: 1.—Italy's devaluation—following the devaluation of the franc and the rest of the gold bloc. 2.—The assumption of power by a clerical dictatorship in Austria occurring almost simultaneously with the firm demands of the Reich Catholics that the Hitler regime abide by the concordat previously arranged for between the Nazi government and the Holy See for the preservation of confessional schools. And, finally, Germany's own threat of widespread dumping of her products on the markets of the world unless her lost African colonies are returned to her.

These are obviously widely separated and unrelated developments, yet each is contributory to an eventual crisis in the political life of Germany, if not of all Europe. Of course, the greatest blow to Germany in the currency devaluation was her own implied isolation—and desertion by Italy. It knocked the props out from under Dr. Schacht's amazing economic schemes, leaving her to a solitary contemplation of the barter system which he had recently expounded, apparently so successfully, among the nations in the Danubian Basin.

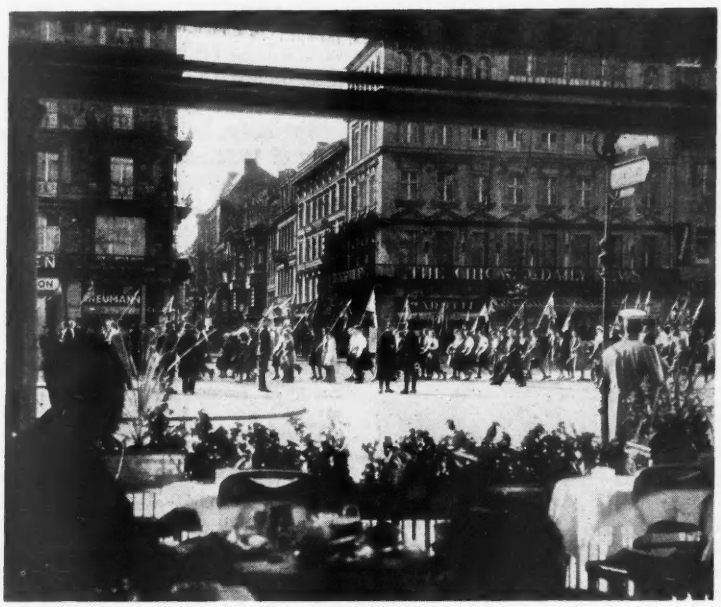
The indicated preference toward Fascism as against Nazism in Austria was a major blow to Germany's dreams of political conquest which she naturally had expected would follow the recent economic Anschluss with Austria. At the moment, it would seem that the Nazis have seen the peak of their power—that Germany's religious intolerance contained the seeds of a reaction that will bring her downfall. If she needed an actual demonstration of her insecurity, she received it in the blow dealt her by Italy and Austria. Just as she has suffered great losses economically as a result of her anti-Semitic campaign, the decline in her political fortunes will be brought about by her intolerance of the Catholic clergy.

And now we come to the third important event: Until recently, Germany found her demands for the return of her colonies a very effective bargaining weapon. In fact, the English had already considered some concessions to her in Africa. But as a result of the German-Italian working agreement and events in the Mediterranean this past year, she has stiffened her back against these demands.

It is becoming more evident every day that with the control of Germany by adventurers and under the leadership of an emotional Dictator, unbalanced enough to plunge Europe into war to satisfy his ego,—the whole world stands in danger.

Already England is refusing to extend further short-term credits to Germany, and there has been a firm suggestion that a considerable amount of free sterling, which a trade balance favorable to Germany has built up in London, be applied in payment under the Standstill Agreement. Such a turn would prove rather embarrassing to Germany's economic equilibrium. Certain it is that she can obtain no short-term credits elsewhere. The United States discontinued its short-term loans some time ago. Private creditors have found that the only means of getting any money out of Germany has been

(*Please turn to page* 64)



Ewing-Galloway

A Political Parade in Unter Den Linden as seen from a cafe window

The Stock Market After Election . . .

BY A. T. MILLER

THE bull market that started in March, 1933, is in its fourth year; the phase of selective advance that began last May, after the sharp April reaction, is in its sixth month; and sharp advance over the past fortnight has carried our composite index to a new recovery high which has topped the previous high of last spring by approximately 4 points.

Where do we go from here? Well, in analyzing the stock market there are three points of view to be considered. To the short-swing trader the market is one thing. To the intermediate trader, seeking to capitalize such swings as that of the past five or six months, it is another thing. To the investor and the long-term speculator it is a third thing.

Now as we look at the external factors influencing the market—the business outlook, corporate profits and dividends, the credit factors and the political factors—we are 100 per cent bullish on the long-term prospect for stock prices. On the intermediate outlook we are somewhat less certain, pending the outcome of the national election. On the short-swing prospect we are still less certain.

After the recent concentrated advance, technical reaction of moderate proportions would not be abnormal. As to the intermediate outlook, the prospect for increased dividend payments on issues backed by large earning power is a strong sustaining force, but against this is the fact that in present thin markets bad news of any kind—whether with reference to the outcome of the election or some wholly unforeseeable news development—can precipitate sudden reactions of much more than technical proportions, as we saw last April.



Photo, courtesy of the N. Y. Stock Exchange

Trading in General Electric and North American

Favorable Factors

As we look at the present technical factors, the outstanding fact is that our index of 295 stocks has given a bullish signal by breaking definitely out of an extended trading range on the up side. It is worth noting that this index has proved remarkably accurate in its bearing upon the longer market trend. For example, in March of 1929, it established a high of 173.1 and in September of the same year it halted at the identical point of 173.1, thus establishing a perfect double top of the long bull market. When it declined a few weeks later below the lowest point of reaction seen during the summer, the great bear market was on.

Similarly, this average made a low of 17.5 early in July of 1932 and in March, 1933, made an identical low at 17.5—a perfect double bottom.

Interpreting this signal in the light of business and industrial developments, we accept the recent establishment of a new recovery high as unquestionably bullish on the longer term and as promising on the intermediate term. Therefore, as regards short-swing and intermediate trading commitments, the only concession we would make to such doubts as exists is to advise that holdings be kept to conservative limits of margin indebtedness. We see no percentage in being entirely out of stocks on the possibility—accompanied by large risk of losing a favorable position—that cash can be utilized to better advantage when and if reaction comes along.

In long-term commitments, either of investment or speculative character, there is only one problem and that is shrewd selection. This is a market of many stocks, a considerable number of which have made little or no progress since July, 1933. For long-term percentage appreciation we believe, as stated before, that

the advantage from this point onward lies with heavy industry stocks generally and with secondary issues, rather than with the premier issues of investment or semi-investment caliber—with stocks, in short, which have but recently turned the corner in earnings or which are in industries facing the probability of substantial further expansion in volume. Specific recommendations are always made elsewhere in this and other issues of THE MAGAZINE OF WALL STREET.

From time to time it is helpful to turn from immediate or near-term considerations to appraisal of our basic position in an effort to maintain a logical perspective. From March, 1933, this bull market has lasted thus far approximately three years and seven months. That is much longer than bull markets of the past usually lasted, with the exception of that great advance of 1922-1929. It has carried many stocks to price-earnings ratios equal to those prevailing in 1929. It has lifted our composite index to 97.5 against 17.5 at the bear market low or by more than five-fold. How much farther can it go?

In depression the last peak of economic activity always seems like the ultimate—but it never has been. A major depression forces drastic adjustment in economic relationships, compels advances in the operating technique of business generally and accelerates technical and scientific progress. Thereby, a base is established not only for recovery, but for advance to a new frontier of American prosperity. That is why, although our general recovery is still incomplete, especially in capital goods industries, some companies even now have attained record high earnings and some stocks are higher than they were in 1929.

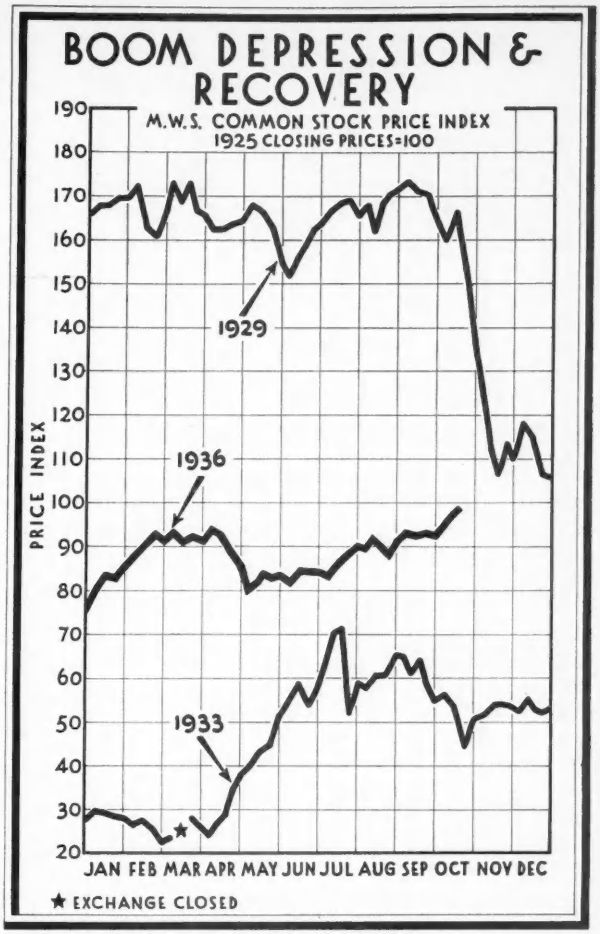
Price-Earnings Ratios

As for price-earnings ratios, they always look high in a bull market because reported earnings are past history and the market is continually discounting future prospects—a process which is valid as long as there is ground for believing that the limit of expanding industrial and trade activity still lies some distance ahead.

In our issue of June 20 this article presented a compilation of fifty representative industrial stocks and showed they were then quoted at a composite price-earnings ratio, on the basis of reported 1935 earnings, considerably lower than prevailed at the close of 1934, on the basis of 1934 earnings, despite some eighteen months of intervening advance. Since that compilation was made our market index has advanced by approximately 15 per cent, but this has been considerably more than equalled by the third quarter advance in corporate earnings, as indicated by such reports as have already come to hand.

In short, the composite price-earnings ratio has advanced little, if any, during two years of strong business recovery. In other words, the market has merely continued to keep in step with expanding corporate earning power. Neither in this, nor in the fact that it remains very largely a cash market—even though the Government's deficit financing may be indirectly furnishing that cash—is there evidence of an untenable speculative boom.

Moreover, there is nothing sacred about past price-earnings ratios, nor about the life history of past bull



markets. It cannot be emphasized too strongly that the going price of securities depends in large measure not alone upon the business trend and earnings and the general state of public optimism, but also very definitely upon the going price for money.

In the "good old days" the yield on long term Government bonds was from 3¼ to 3¾ per cent and that on a high grade corporate bond was around 4½ per cent. Today the yield on a Government bond is little over 2½ per cent and that of the best corporate bonds 3½ per cent or less. This is a decline of nearly 30 per cent in long term money rates. Other things being equal, income-yielding securities naturally will sell at proportionately lower yields and proportionately higher prices, and the pressure of money seeking employment will extend even to non-income-yielding securities that have any prospect of returning a future yield.

Hence, the state of the current money market accounts in considerable measure for the present level of stock prices. Add to this rising earnings in all well situated enterprises, and you have two factors which together far outweigh such undiscriminating speculation as is present.

Naturally, the probable future course of money rates must be taken into account. Past long range forecasts of interest trends have sadly missed the mark in most instances—but we have an (*Please turn to page* 56)



Happening in Washington

BY E. K. T.

WASHINGTON SEES

Political forecasting the nation's chief interest.

Landon with a chance to win the election.

But Roosevelt favored unless all the breaks go against him.

The big key states still doubtful.

Straw polls being scrutinized and compared.

Minor parties a factor.

Complexion of Congress problematical.

Local issues and conditions liable to swing the result.

Who will win the election? Does Landon have a chance? Little else is discussed these final days of the campaign. Little is happening in Washington except exchange of political opinions.

Landon does have a chance. That is the estimate of most unbiased, experienced observers. But it is a long chance. He will have to "get the breaks" in all the big doubtful states. Roosevelt will win if he carries just one of the big Atlantic or Lake states, or two of the medium-sized battleground states, and holds everything else which is leaning his way. It will be a close election. Close in total popular vote. Close in the sense that large key states will remain doubtful to the end of the campaign.

But it is possible for Roosevelt to get a slim majority of popular votes and a large majority of electoral votes. It does not appear that Landon has a chance to get a large majority of either popular or electoral votes.

Roosevelt has the edge today, two weeks before the balloting. Such is the popular opinion reported to Washington through scores of channels. It is supported by attitude of Republicans which is hopeful but with fingers crossed; and it is also supported by attitude of Democrats which is confident but not boastful.

Last-minute campaign developments, final shifts of "on the fence" voters, may tell the story.

Doubtful states may turn on local issues, strength of party organizations, state, county and city tickets, political "deals," factional rivalries. Such things are difficult to appraise in Washington, but they carry real weight. By and large, voters mark their ballots "straight," and where local issues run strong their outcome frequently swings the national elections. But many voters know how to "split the ticket," particularly in the Middle West and Middle East, where the battle rages this year.

So many imponderables, so many uncertainties, in the doubtful states, that estimates are little more than guesses. Experience shows that even 40,000 prognosticators can be wrong.

What are the doubtful states? Most of those which are claimed for Landon or leaning toward him must be classed as doubtful. The larger ones are Massachusetts, New York, New Jersey, Pennsylvania, Ohio, Michigan, Indiana, Illinois, Minnesota, Iowa. Smaller ones are Connecticut, Rhode Island, Delaware, West Virginia, South Dakota, Nebraska, Colorado, Wyoming.

Concede Roosevelt the "Solid South," including the possibly doubtful border states of Maryland and Missouri. Landon may get a sizable popular vote in some of these states, but few predict he has a chance of carrying any. This gives Roosevelt 169 electoral votes to the New Mexico border. Give him all the mountain states except Wyoming and Colorado, which appear to be leaning to Landon, 21 more votes. All the West Coast, 35 more. Also North Dakota, 4, and Wisconsin, 12.

This gives Roosevelt 241 votes. Few dispute that the President will carry the states so listed. A majority of the electoral college is 266. He lacks 25 votes. Where will he get them? Ohio alone (26 votes) would do the trick. So would New York, or Pennsylvania, or Illinois. So would two or three other states in the doubtful belt.

Landon can claim as certain only four states—Maine, New Hampshire, Vermont and Kansas, and the Democrats are even trying to take his own Kansas away from

him. There's 21 votes. He is admitted to have a pretty strong lead in Massachusetts and Connecticut—25 more—and a moderate lead (tinged with misgivings) in Pennsylvania, New Jersey, Delaware, and Wyoming which together have 58 votes. Democrats will not concede all these states, but the tide appears to be running Republican. The three groups total 104 electoral votes.

Granting these states to Landon, he needs 162 more electoral votes to win a bare majority. These he must get from the doubtful states, whereas Roosevelt needs only 25 votes from the doubtful states to get a majority. There is the picture.

What about the straw ballots, polls, and compilations of political opinion? There is about as much discussion over them as over the outcome of the election itself. Each is based on a somewhat different method. Each has its critics and its defenders. Where the sentiment is preponderantly one way, even below the surface, these polls are quite indicative. But where a state is evenly divided there is no certainty in any poll.

The accompanying table gives a comparison of six published and unpublished polls and impartial estimates for 20 doubtful states. Of this group Wisconsin and Missouri are generally conceded to Roosevelt, the others claimed by the Republicans. In case of a Landon landslide, Washington, Oregon, Idaho and Maryland might go to him, but most prognosticators put them in the Democratic column without much doubt.

Each of the other 18 states in this group is a real battleground. There are 269 votes there, and Landon must get all but 24 of them to add to his 21 "sure" votes to make the needed 266.

The polls in the table show that several of the most important of these states are indeed doubtful, as some estimates give a leaning in one direction, some in the other.

Comparison of Polls of Doubtful States

Electoral Votes		Literary Digest	Literary Digest Adjusted	Inst. Public Opinion (Gallup)	Crosley	Political Writers' Composite View	Party Workers' Composite View
17	Mass.	L	L	L?	L	L	L?
4	R. I.	L	L?	L?	L?	L?	L?
8	Conn.	—	—	L	L	L	L?
47	N. Y.	L	L?	L?	??	??	L?
16	N. J.	L	L?	L?	L?	L?	L?
36	Pa.	L	L?	L?	L	L?	L?
3	Del.	—	—	R?	L	L	L?
8	W. Va.	—	—	L?	L?	??	L?
26	Ohio	L	L?	R?	R?	??	L?
19	Mich.	L?	L?	R?	R?	L?	L?
14	Ind.	L	L?	L?	L?	??	L?
29	Ill.	L	L	L?	L?	??	L?
12	Wis.	L?	L?	R?	R	R?	R?
11	Minn.	L?	L?	R?	R?	??	L?
11	Ia.	L	L?	L?	L?	??	L?
15	Mo.	L?	R?	R?	R	R?	R?
7	Neb.	L?	L?	L?	R?	R?	L?
4	S. D.	L?	L?	L?	??	L?	L?
3	Wyo.	L?	L?	L?	L?	??	L?
6	Colo.	L?	L?	R?	R?	L?	L?

L—Landon strong lead. L?—Landon slight lead.
R—Roosevelt strong lead. R?—Roosevelt slight lead.
??—About evenly balanced.

The Literary Digest poll comes in for the most discussion because of its age and record for accurate forecasts. It shows Landon running far ahead. Democrats scoff at this publicity, worry privately. Political experts are skeptical. It does not jibe with other polls.

There are several explanations. One is that returns so far are incomplete and tabulations omit many large cities where Roosevelt is supposed to be strongest. It is significant that each successive tabulation gives Landon less of a lead. The Digest itself hints that its final compilation may show Landon's percentage of the popular vote at about 50 or slightly below. This would mean that Roosevelt would show a larger percentage, because some votes go to minor candidates.

Another explanation is that the Digest's mail ballots do not reach, or are not returned by, the class of people with whom Roosevelt has the greatest strength. Telephone books and automobile registrations form part of the Digest's mailing list.

An interesting mathematical analysis of the Digest poll is made each week by Professor W. L. Crum of Harvard. He adjusts the returns for each state on the basis of the way the same voters voted in 1932. The formula is somewhat complicated, but briefly Prof. Crum:

1. Computes the percentage of people who voted Republican and those who voted Democratic in 1932 and are covered in the poll of each state.

2. Applies these percentages to the total 1932 vote of that state to secure an estimate of total shifts in both directions.

3. Estimates the total 1936 vote on the basis of these percentages.

This formula gives somewhat different results for most states than would be obtained by taking the Digest returns at their face value as showing the sentiment of all voters in a given state. It cuts down Landon's lead appreciably. For example, a recent Digest poll showing 40 states, with 58 electoral votes missing, gave Landon 344 electors, but the Crum *(Please turn to page 64)*

The latest Literary Digest poll gives Landon 55.4 per cent and 370 electoral votes, with margin declining as big city ballots come in. The American Institute of Public Opinion poll gives Roosevelt 54 per cent of popular vote and 390 electoral votes, a slight gain. Crosley poll shows slight Landon gains but with all key states doubtful. The Autocaster poll, conducted through several thousand country newspapers, shows Landon leading. The Cleveland News "poll of all polls," a concensus of 3,007 polls, gives Landon 307 electoral votes to 220 for Roosevelt, listing Idaho's 4 votes as "undetermined." The same concensus gives New York to Landon by 205,000 votes, Pennsylvania by 300,000.

✓ Recent devaluations give new hope for world monetary stability and resumption of international trade

The Dollar and World Currencies

BY H. M. TREMAINE

GREAT BRITAIN pulled the props out from under the post-war gold standard in 1931 when she found it both impossible and undesirable to maintain the former gold parity of her currency. The pound sterling is by far the most widely used money in the world and Britain is the largest international buyer of commodities. Therefore, woe betide the nation which does not keep its currency in step with sterling.

Some saw this promptly—Japan, who depreciated the yen further to keep it under sterling; the Scandinavian countries, who pegged their currencies to sterling, all the British Dominions, except Canada, who joined the procession later. The United States belatedly followed suit in 1933 with a 40 per cent dollar depreciation which virtually matched the depreciation in sterling. Last year Belgium surrendered to the deflationary siege and went through her second devaluation since the war. In September, France, Holland and Switzerland bowed to the necessity of monetary readjustment—the second devaluation for France in a decade—and Italy and Czechoslovakia promptly followed.

Back to Former Relationships

Today the currencies of the leading commercial nations, with the exception of Germany, are back in approximately the international relationships that prevailed before Britain left the gold standard in 1931. Today, moreover, the United States, Great Britain and France—the three great democratic nations—are working together in a "gentlemen's agreement" to maintain a *de facto* stability of exchange among their respective currencies in the hope that a permanent stabilization of exchanges on some kind of a gold standard, a lowering of trade barriers and a revival of international commerce may eventually emerge therefrom.

Certainly these are momentous developments in world affairs. It may be that the cycle of international currency instability is at last completed. It may be that we can await with high hope the fruits of this renewed international monetary collaboration.

Yet in the final analysis it must be remembered that currency instability is merely a symptom of a more fundamental world ailment: namely, economic and political instability. Hence, whether the leading nations will be able to work their way toward lasting currency stabilization depends upon whether each will be able to establish lasting internal economic and political stability to a degree that will create confidence that new gold parities can be indefinitely maintained without deflationary consequences upon the domestic economy of any of the collaborating countries.

It is obvious that the requisite economic and political stability does not exist today. That is why the British Government makes it emphatically clear that its present arrangement is in no sense a return to any kind of gold standard. That is why both Britain and the United States make it plain that the tri-partite monetary agreement—the terms of which have not been revealed—is on "a twenty-four hour basis" and subject to change or abandonment at any time.

For perspective, one must remember that the pre-war gold standard was a largely automatic regulator, divorced from political control. The World War ushered in a New Deal in monetary affairs that is still with us and the end of which is not in sight. With the war came the creation of huge national debts in all participating countries, unsupportable debts in some participating countries. With huge public debts there came the urge for governmental monetary management. Unlike the individual who has bitten off more than he can chew, a government does not repudiate or write down its debts. Instead, it writes up its assets. That is, it it revalues its currency. Germany, France, Italy and Belgium did that shortly after the war. Britain elected to stagger along under her load—a load supportable only as long as a fair degree of world prosperity endured. But world prosperity did not long endure. There came the end of American lending in Europe, the collapse of the American boom, a slide into world depression.

The Debt Load

Meanwhile, the debt load had only been temporarily lightened in France, Italy, Germany and Belgium. Under modern political monetary management, no sooner is the burden lightened by currency revaluation than new liabilities begin to be created, whether for armaments, social measures or what not.

Today we have political monetary management firmly established in every important commercial country. Inevitably political management has an ingrained bias toward credit expansionist policies. The gold value of currencies may be reduced from time to time out of necessity—apparent or real—or for seeming trade advantage; but the gold value of currencies is never increased, for that would be deflationary. The war started a long-term bear market in currencies, not

simultaneously in all countries, but eventually gripping them all.

The only question today is whether we are to have a long interlude without further decline in currencies. If so, it will be to the advantage of world trade and of all economic classes. If not, it will be at further cost to the creditor classes, further gain to the speculator, the equity owner, the entrepreneur.

If there is any single key, it is the pound sterling; for the simple reason that in world trade this is the paramount currency—but the pound cannot go it alone in disregard of what happens in other important countries. Britain must chart her monetary course with reference to the outlook for the dollar, the franc, the yen, the mark. It is a vicious circle that every nation *desires* to end—but none feels genuinely assured that it now *has* ended. Not even the strongest can stand aloof. In the United States it is not a question of unsupportable public debt, but merely that we have found—despite our high degree of economic self-containment—that the dollar must be geared with the pound if deflation of our price structure is to be avoided.

The Quest for Stability

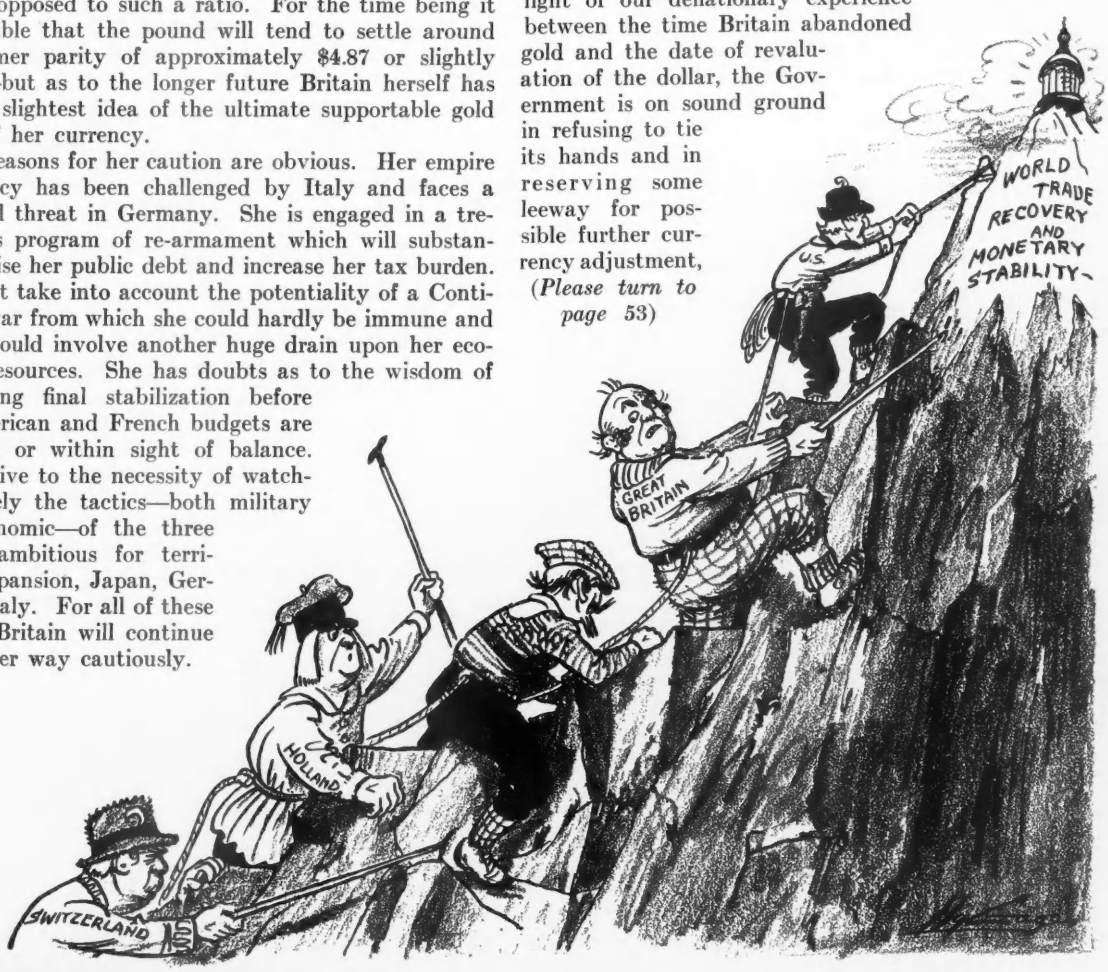
What is the outlook for the pound? Britain is known to desire it ultimately at $4.50, with the United States utterly opposed to such a ratio. For the time being it is probable that the pound will tend to settle around the former parity of approximately $4.87 or slightly higher—but as to the longer future Britain herself has not the slightest idea of the ultimate supportable gold value of her currency.

The reasons for her caution are obvious. Her empire supremacy has been challenged by Italy and faces a potential threat in Germany. She is engaged in a tremendous program of re-armament which will substantially raise her public debt and increase her tax burden. She must take into account the potentiality of a Continental war from which she could hardly be immune and which would involve another huge drain upon her economic resources. She has doubts as to the wisdom of attempting final stabilization before the American and French budgets are balanced or within sight of balance. She is alive to the necessity of watching closely the tactics—both military and economic—of the three powers ambitious for territorial expansion, Japan, Germany, Italy. For all of these reasons Britain will continue to feel her way cautiously.

France, after two devaluations, yearns for an immutable gold standard stabilization—but the end is one thing and the means something else again. The ultimate fate of the franc remains bound up with that of the pound. Relative to capacity to pay, her debt burden remains heavier than that of Britain, even after the latest devaluation. She is beset with serious internal political instability. She is almost fatalistically resigned to another ultimate war, under the impact of which no gold standard could stand up. More immediately, there is the question whether the social measures and credit reflation policy of the Blum "New Deal" government will permit a budget balance. It can be said that for the present at least the French position is improving. Repatriation of capital, particularly from London, is in progress, security values have risen and short-term interest rates have cheapened. The unanswered question is whether this desirable reflation will be offset by too great rise in prices and costs of enterprise.

Here in the United States, as compared with Europe, we have a high degree of political and economic stability; and our national debt, while still rising, is without question within our ability to support. So far as as our internal position is concerned, there is no technical reason why the dollar could not be definitely stabilized on a convertible gold standard. Yet, in the light of our deflationary experience between the time Britain abandoned gold and the date of revaluation of the dollar, the Government is on sound ground in refusing to tie its hands and in reserving some leeway for possible further currency adjustment,

(*Please turn to page 53*)



Motor Sales and Profits for 1937

BY GEORGE L. MERTON

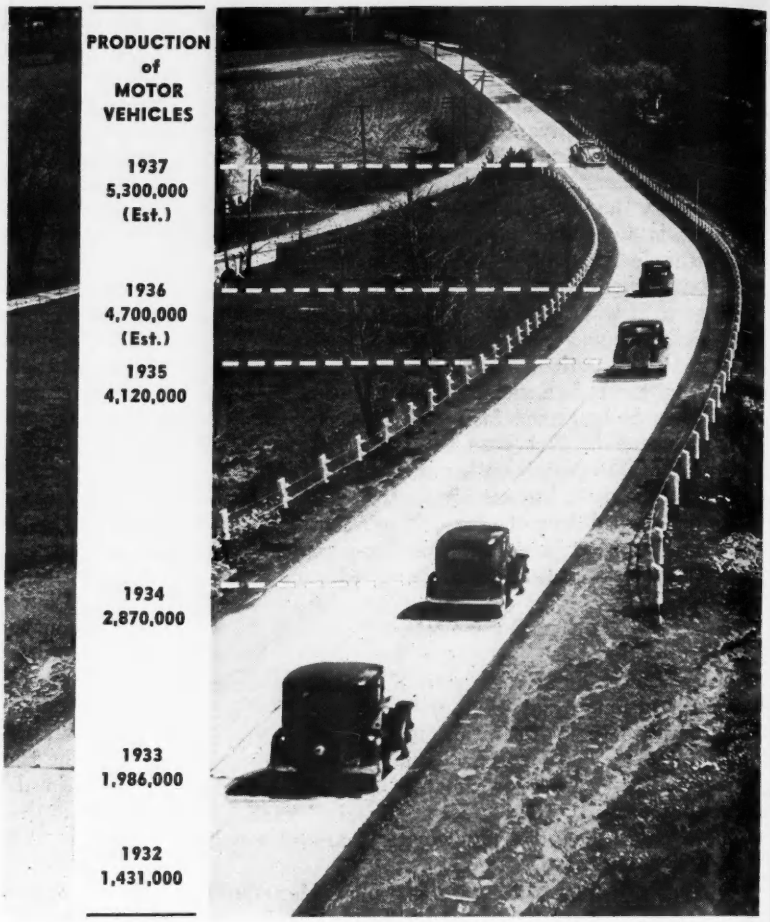


Photo from Nesmith

ANOTHER year's automobile models are about to make their appearance. Indeed, some of them have actually arrived: the new Studebakers are out, the new little Packards about which there has been so much conjecture are to be seen on the street. Among the independents, Hudson, Nash and Graham-Paige have shown their dealers the line they have to sell in the coming season. Of the General Motors line, Buick, Oldsmobile and Chevrolet likewise have made their dealer debut.

The majority of forecasts made a year ago were to the effect that while the 1936 models were to show relatively minor changes from those of 1935, the year 1937 would be one of drastic revision. There is every indication, however, that this forecast is to be proven wide of the mark; from the glimpses that have been had of next year's cars and from what is known about those not formally introduced, there will be few radical changes from those of this year's vintage that we are accustomed to see on the streets. Nevertheless, the automobile industry is not one to leave itself without a number of talking points and the new cars will stress comfort, safety and economy with all the old enthusiasm that in years gone by made the public conscious of "independently-sprung front wheels," "all-steel top" and "free-wheeling." The present build-up will grow in intensity until it reaches a crescendo at the New York automobile show early in November.

As is always the case at a time like this, there is a tendency for the trees to obscure the forest. In the hullabaloo over the new models all the emphasis is upon the car as a single individual unit; the car as an economic force of the first magnitude will be something neglected until the population has had a chance to see and examine the latest product of America's most characteristic industry. Here, however, let us take for granted the new cars' comfort, safety, beauty and speed and discuss the chances of 1937 being a five-million-car year and whether, if it is, it will be the "one more good year" which many prophesy for the industry. Let us also look into the matter of competition, profit margins, earnings and, in general, the merit of automobile securities as investments and speculations. The business man or investor may for a time be more concerned with deciding whether he should turn in his old car for a new one than with the progress of the automobile industry, but ultimately the latter will concern him most.

Precedent is a hindrance rather than an aid in gauging the automobile industry's present position. In the years between the end of the World War and the culmination of the boom in 1929 never did automobile production increase for more than two years in succession. The three-year automobile cycle became a

generally accepted phenomenon. Yet, here we are confronted with the fact that 1936 will be a bigger automobile year than 1935, 1935 was bigger than 1934, 1934 than 1933 and 1933 than 1932. If, as many confidently expect, more cars are produced in 1937 than were produced in 1936, it means five successive years of increasing output.

On the other hand, the automobile industry could establish its record of five successive years of increasing output without establishing a record for yearly production. Last year some 4,120,000 passenger cars and trucks were produced; this year it is estimated that the number will be in the neighborhood of 4,700,000, or still not far from a million below the number turned out in the all-time peak year, 1929. Hence, despite an unprecedentedly long record of successive gains, it cannot be contended on the face of it that output is about to exceed reasonable bounds.

This, of course, is all right as far as it goes, but to show merely that there are no indications of automobile output falling of its own weight is negative reassurance at best. What we really want to assemble is the evidence, pro and con, of automobile production next year exceeding this and of 1938 exceeding 1937. The most important factor in motor car sales unquestionably is the state of the public purse; the second most important factor concerns the state of repair and modernity of today's automobiles.

So far as the prospective state of the public purse is concerned, the outlook could hardly be improved upon. The widespread betterment in business has generated purchasing power; the Government has generated enormous quantities of it through bounties and doles. Farmers generally are better off; not only have they received much in the way of "benefits," and from every indication, will continue to receive them, but they are receiving much higher prices for their output. Concrete evidence of the healthy state of the public purse can be seen in the huge increase in bank deposits—deposits which today are turning over slowly, but which if they ever circulated as they have in the past, unquestionably would greatly accelerate business activity and rising prices.

It may well be, of course, that there are elements of great danger in the Government's stimulation of purchasing power through the lack of balance between its receipts and its expenditures. Among the automobile people themselves, there are many who see rocks ahead. Mr. Sloan of General Motors not long ago said that "we must watch our step" and warned of the hazards in a chronically unbalanced Federal budget. Here, however, we are not concerned with whether the increased public purchasing power is the result of inflation or not and even less with whether the policies of the Administration will take us over the cliff ultimately. For the present purposes it suffices that everything points to the people being able to satisfy a craving for more automobiles should they care to do so.

In looking around for something on which to spend any little surplus money that has come into his possession, a man unconsciously will take an inventory of what property he has; he will measure the satisfaction it affords him against the theoretical par of the same article brand-new. He will balance a new radio against a new refrigerator, the painting of his house against a new automobile. Whether he decides to paint the house or buy the car depends upon the state of the old pain job and the vintage of the old car. If the car be old, he will probably buy a new one and let the painting go for a year.

At the end of this year, the United States will have registered very close to twenty-seven million motor vehicles. Of these, more than half will be over five years old; about four-and-a-half million will be over eight years old. Now the life of a car is not an immutable period. It is apt to be stretched during a period of depression: also, the steady technical improvement and the use of longer-lasting materials undoubtedly are acting to give cars a progressively longer life. However, as a reasonable basis on which to proceed, it may be said that every car on the road today built in 1928 or earlier is potentially ready for replacement; a great many cars built in 1929 are similarly situated. Because these were two record-breaking years in automobile production, it means that there will be a larger potential replacement demand next year and in 1938 than ever before in the history of the industry.

In view of the increase in public purchasing power, it can hardly be doubted that the potential replacement demand will largely become an actual demand. Possibly it may be counted upon to become an actual demand to the extent of upwards of three-and-a-half million units next year. New buyers of cars and multiple-car owners may be expected to take not far from a million-and-a-half units and this, coupled with exports, gives a total of well over five million units as next year's total automobile production.

With a production of well over five million units, the automobile industry will certainly make money next

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An Even Better Year Ahead—

SAYS

ALVAN MACAULEY

President, Automobile Chamber of Commerce and Packard Motor Company in a Special Statement to THE MAGAZINE OF WALL STREET

The automobile industry is going strongly into the last quarter of what unquestionably is going to be a good year. The industry has done well. It had the courage to go out and spend almost untold millions of dollars in its aggressive campaign to get business. It has been rewarded for this courage and for its aggressive action. It has operated profitably and has seen thousands of its people returned to gainful employment. We in the industry believe that we can see unmistakable signs of a better year in the manufacture and sale of automobiles in 1937. We are trying our utmost to make it a better year by building more worthwhile cars than have ever been offered to the public before. We consider that we certainly are doing our part and it is our profound hope that nothing which lies beyond our control interferes with our progress.

year. Whether it will make as much as is expected of it, however, is less certain. Costs of labor and materials are up and may well go higher; taxes of all kinds are increasing. Are the automobile manufacturers making any attempt to offset these items by raising their selling prices? No, on the contrary: as this is written there have been price announcements on Studebaker, Packard, Buick and the Lincoln Zephyr, and these were down on the various models more than they were up, the decline in the case of the Zephyr being particularly sharp. Even though these announcements fail to establish a precedent for the rest of the industry, they do indicate that a general *advance* in prices is extremely unlikely.

Factors Offsetting Increased Costs

This leaves the automobile manufacturer only three ways to offset his increased costs (1) by cheapening his car physically, (2) by a higher productive efficiency, (3) by the economies in increased output. There is a definite limit to what can be done along the first of these lines. It may be possible to cut down a little here and there, but any manufacturer who cheapened his car to the point where it affected performance, appearance or durability to any material extent would very quickly hear from his customers. Indeed, about the only cheapening that can be done as a practical matter is in the nature of an "engineering advance" where, for example, a less costly material is found to be fully adapted to the purpose of one costing more.

So far as a higher productive efficiency is concerned, the automobile industry is one that is constantly progressing. The progress of the near future, however, may be somewhat greater than usual. Over the past year or so, millions have been sunk into new plant and equipment. Chevrolet is typical and this company alone has spent some twenty-six million dollars in tools, machinery and plants for its 1937-models. All this modernization and rehabilitation will begin to pay dividends next year and, although the dividends will be partly in the form of a more finely finished product, they will also be partly in the form of lower production costs.

That the automobile industry will benefit over the next year or two by the economies that necessarily follow increased output is certain. If the industry succeeds in building some 5,300,000 cars and trucks next year as seems likely, it means just this many more units over which to spread executive, engineering and other overhead costs.

To sum up the principal factors in the earnings outlook for the automobile companies, therefore, we have on the adverse side increasing costs of raw materials, higher wages and taxes, together with the possibility of somewhat lower selling prices. On the favorable side there is the practical certainty of an increase in volume, some economies in the cars themselves and an accelerated efficiency in production brought about by the tremendous sums spent on new plant and equipment. Past experience demonstrates that under a similar set of conditions, the favorable side will carry the greater weight. If all goes in a normal manner, this should be true of the future. At the present time, however, all forecasts concerning the automobile industry would be nullified by the materialization of certain exceptional possibilities.

Possible Sources of Trouble

Serious labor disturbances, for example, might well upset the present optimistic outlook. Nor would it have to be a labor disturbance in the automobile factories proper; a widespread strike among rubber or other accessory workers, a shut-down in important steel centers, would have the same effect. So far as the automobile industry itself is concerned, labor troublemakers never did appear to have much chance to ply their trade. At one time, however, the situation in steel appeared quite ominous, but today the situation looks more hopeful. There is a very fair prospect that nothing untoward will develop and the only reason that the unpleasant subject of labor trouble has been introduced is that no long-range discussion of the automobile industry would be complete without its being mentioned at least as a possibility.

So far, nothing has been said of the prospects enjoyed by individual companies. It is much more difficult to foresee a favorable volume of output and earnings for a specific manufacturer than for the industry as a whole. The prosperity of an individual company is largely dependent upon the people's whims and as the people's whims are so often illogical, nothing very much can be said of the new cars until one has had a chance to see how they are selling. This year has been a Chevrolet year and a Chevrolet year distinctly at the expense of Ford. It has also been a year of exceptionally good business for the makers of medium-priced cars, including the independents whose continued existence at one time seemed open to question. For 1937 we find Chevrolet entering the arena with a model considerably changed: Ford is to go to the steel-top. Will their relative positions remain unchanged? No one knows. And what of the Plymouth? Chrysler's earnings this year have been sensational and, as the company never was one to rest on its oars, one can be sure of its making remarkable efforts to avoid any let-down in 1937.

About the only thing certain in the outlook for individual automobile companies

(*Please turn to page 56*)

Among the Principal Automobile Companies

COMPANY	1935 Full year net income	1935 Full year earned per share	1935 1st 6 mos. earned per share	1936 1st 6 mos. net income	1936 1st 6 mos. earned per share
Auburn	$ 2,677,852a	....	....	$ 849,288b	....
Chrysler	34,975,818	$8.07	$4.31	29,473,736	$6.83
General Motors	167,226,510	3.69	1.85	140,572,546	3.17
Graham-Paige	1,701,325c	....	....	216,648c	....
Hudson	584,749	0.38	....	2,144,805d	....
Nash	610,227a	....	....	603,137c	0.23
Packard	3,315,622	0.22	0.02	3,520,128	0.23
Studebaker	....	....	....	1,004,830	0.46

a—Loss for the year to Nov. 30. b—Loss for 6 mos. to May 31. c—Loss. d—Profit before Federal taxes. e—Nine mos. to Aug. 31.

Low return on sound securities, a marked tendency toward refunding at lower rates, the possibility of inflation—these are a few of the perplexing factors in the current problem of . . . .

How to Get the Most from Your Investments

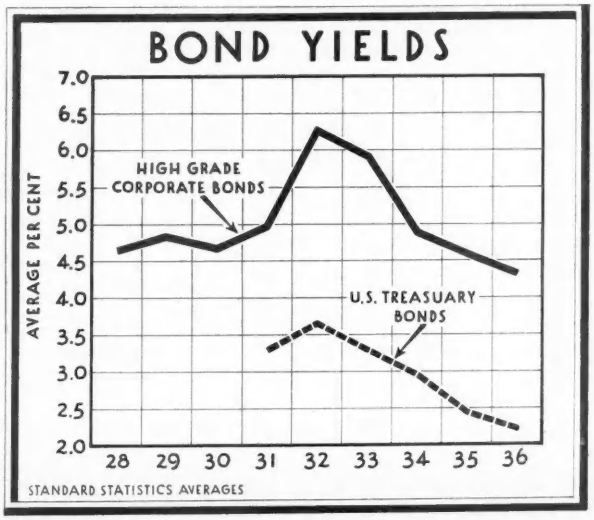
BY J. S. WILLIAMS

The universal objective of any investment undertaking is the maintenance of the largest possible yield, consistent with safety. This is the objective which is sought by the radical investor and conservative trustee, alike, the main difference, of course, being in their respective conceptions of what constitutes safety and the degree of latitude which they are permitted in the handling of their funds. In security investment no other consideration transcends that which is concerned with the permanent protection of the principal sum. This is a fundamental principle and the foundation of investment practice.

Many investors, however, are prone to forget it and, by continually striving to obtain the maximum return, place their capital in serious jeopardy. True, investment losses may result from honest mistakes and unforeseen conditions beyond the control of the individual. But without fear of contradiction, it may be said of the great majority of investors, who have at one time or another suffered serious losses, that their plight was the direct result of reaching for the largest possible yield, by gradually lowering their standards of investment quality. The higher the return, the greater the risk. This axiom is so well known as to be trite, but it is 100 per cent true. Too many investors, however, are unable to resist the lure of a high return, assuring themselves in the instance of one medium and another that these are exceptions to the rule.

The financial stress wrought by the depression and the experiences of recent years instilled in many investors a greater measure of caution and a resolution to adhere strictly to the principles of "Safety First." But with the confidence born of rising security prices and the increased tempo of business activity, the memory of the trying days of 1931 and 1932 is gradually fading and investors are again indulging in more reckless undertakings in order to gratify their desire for the largest possible yield. In justice, however, it must be admitted that in the present circumstances this practice has not been motivated solely by greed, but has been virtually forced upon many investors. In fact, the average investor today is not so much concerned with obtaining *more* income as he is with preventing his investment yield from becoming *less*. The problem in either case, of course, is the same. It is a problem which, at best, can be only partially met within the limitations of a reasonably conservative investment program and, even then, not a few investors may be compelled to alter their ideas of a conservative investment program.

It is hardly necessary to point out that money earns much less today than it did a few years ago. It most certainly isn't news to bondholders, who, when informed that their 5, 5½ and 6 per cent bonds were to be called prior to maturity, discovered that the company was raising new money by issuing 3½ and 4 per cent bonds. Their next discovery, if indeed they had not already observed it, was that high grade bonds had steadily risen in value to a point where the current yield was scarcely more than 3 per cent. The supply of investment money exceeded the demand—and still does.



Corporations with bonds outstanding have lost no time in taking advantage of a situation highly favorable to them. Refunding operations, involving the retirement of high coupon issues with funds de-

Common Stocks Whose Low Yield Is Offset by Dynamic Possibilities

	Recent Price	Dividend	Yield %
General Electric	48	1.00	2.1
Coca Cola	121	2.00	1.6
Eastman Kodak	175	5.00(1.00)	3.5
Standard Oil (N. J.)	65	1.00 (.25)	1.9
du Pont	168	3.60(1.70)	3.1
Union Carbide & Carbon	100	2.80	2.8
International Nickel	62	1.40	2.3
National Lead	28	0.50 (.12½)	2.2
National Steel	72	1.50	2.1
Air Reduction	75	1.00(1.50)	3.3
American Smelting	89	2.00	2.3
Aluminum Co. of America	132	None	...
Douglas Aircraft	70	None	...
Bethlehem Steel	74	None	...
Johns-Manville	120	2.00 (.50)	2.1
Pullman	64	1.50	2.3
American Steel Foundries	44	None	...
Sperry Corp	21	1.00 (a)	4.8
U. S. Gypsum	102	2.00	1.8
Montgomery Ward	54	0.80	1.5
Anaconda Copper	42	1.00	2.4
Westinghouse Electric	150	4.00	2.7
Allis-Chalmers	65	1.50	2.3
Timken Roller Bearing	67	2.00 (.75)	4.1
Briggs Mfg	62	2.00(1.00)	4.8
Pittsburgh Plate Glass	130	4.00(a)	3.1
Caterpillar Tractor	82	2.00	2.4
International Harvester	90	2.50	2.8
American Car & Foundry	54	None	...
Amerada Corp	100	2.00	2.0
Westinghouse Air Brake	45	1.00	2.2
Monsanto Chemical	97	1.00 (.75)	1.8

(a)—Paid this year. Figures in parentheses indicate extra dividends paid this year.

rived from the sale of low coupon issues, have comprised the great bulk of new financing for some months and the end is not yet in sight. This has meant that the investor with a fairly substantial backlog of high grade bonds in his portfolio has already suffered a considerable reduction in income and the probabilities are that it will be further reduced in the months ahead. Hindsight now shows the wisdom of purchasing non-callable bonds, but back in 1931 and 1932, when even the best bonds were selling at substantial discounts little thought was given to call prices, much less to the possibility that many companies would in less than five years be able to arrange long term financing on a 3½ per cent basis.

The present situation is one which undoubtedly has wrought considerable hardship, particularly in the case of individuals who are dependent upon investment income, and are without the means or ability to augment it. The loss of a few hundred dollars in the annual income of people in these circumstances is a serious matter—serious not alone because of the reduced purchasing power but because it creates a dilemma from which relief is often sought by what appears to be the simplest method, the purchase of high-yielding securities. The danger which lies in the latter procedure is twofold. Investment quality is sacrificed and the yield, while generous may offer inadequate compensation for the risk involved.

The desire to maintain income, coupled with rising corporate earnings, implying increased protection, has stimulated public demand for medium-grade and speculative bonds to a point where many of these issues have risen substantially in value and the price differential between them and high-grade bonds has been gradually closed. As a result, many medium-grade bonds are currently selling at levels which provide a yield lower than would otherwise be warranted by the quality of the bond, even in a period of exceptionally low interest rates. Proper analysis would disclose these discrepancies, but too often the investor is lured into purchasing lower grade issues than his requirements permit by the superficial and unreliable method of price comparisons.

At this point the question arises—what return can the prudent investor expect under present conditions? In the years prior to the depression, the yield on United States Government bonds averaged between 3¼ and 3¾ per cent. The yield on best grade corporate bonds in the same period averaged about 4½ per cent. Today the yield on long term Government bonds is slightly more than 2½ per cent, while high grade corporate issues yield about 1 per cent more—many of them less. Assuming a corresponding decline in the yield on other classes of bonds, the inference is that in order to obtain a yield of 5 per cent today it is necessary to purchase issues of lower quality than those which gave a yield of 5½ per cent or more, seven or eight years ago. Concluding this line of reasoning, it is apparent, therefore, that the *maximum* income return from a conservative investment portfolio in the present circumstances is arbitrarily limited to 4, or perhaps 4½, per cent. A higher yield would imply the willingness and ability to assume greater risks.

Having determined a practical limit, beyond which it would be unsafe to venture in seeking maximum yield, it is necessary next to consider what may be done to assist the investor who is between the devil of reduced income and the deep sea of rising living costs.

Sweeping Revisions Necessary

In approaching this problem, let no one be deluded into the belief that the effects of low interest rates can be successfully circumvented. The effects will be present either in the form of reduced income or in a lowering in the average investment quality of the investor's portfolio. The fact, however, that both of these conditions are inescapable does not necessarily mean that they cannot be mitigated. To do so, however, investors may be compelled to make revisions, more or less sweeping, in the holdings currently comprising their portfolios.

The first step toward the attainment of maximum income consistent with safety at this time is a careful survey of bondholdings with a view to reducing their proportion of one's total investment capital. In the present economic setting it is neither necessary nor advisable that fixed-income securities should comprise more than 50 per cent of a diversified investment portfolio, and in the case of many investors, circumstances might well justify a 33 1/3 per cent ratio.

Would these ratios be consistent with the fundamental principle of "Safety First"? The writer is of the opinion that they would be, perhaps not in the case of every individual, but certainly in the case of the majority. Also, it should be remembered that here we are

primarily concerned with the immediate realities and their relation to the probable trend of events over the next two years or more.

In addition to their low current yield, there are other disadvantages to be found in fixed-income securities at this time. Opinions differ as to whether low interest rates will prevail over an extended period, sustaining the current high level of bond prices, or whether interest rates are destined to stiffen in the near future with a corresponding decline in bond values. In this connection, however, consideration must be given to the fact that the present supply of easy credit has been created by Government financial policies and to that extent a large measure of artificiality is present. The potentialities of this situation from the standpoint of the bondholder are considerable. Speaking before the National Association of Supervisors of State Banks, in Detroit recently, George V. McLaughlin, President of the Brooklyn Trust Co., said,

"Let us try to remember this simple sequence of causes and effects:

1. Bank purchases of Government securities create increases in bank deposits.
2. Increases in bank deposits mean increases in potential purchasing power.
3. Increases in potential purchasing power become increases in actual purchasing power whenever public psychology turns optimistic.
4. Increases in actual purchasing power cause rising prices as soon as demand overtakes practical productive capacity and shortages appear.
5. Higher prices cause larger borrowings from banks.
6. Larger borrowings will mean higher interest rates. . . ."

Purchasers of bonds at prevailing high levels, therefore, are risking possible losses later, should interest rates harden. Also, as pointed out, in the case of many medium grade bond issues, rising prices have reduced yield to a point where the adequacy of the inducement to accept the lower quality is questionable. In addition, and possibly the strongest objection, fixed-income securities have no defense against a rising cost of living. And finally, despite the fact that monetary inflation, for the moment at least, has been relegated to the background, it is a contingency which should not be lost sight of in the present setting of huge Government expenditures and unbalanced budgets.

Quoting Mr. McLaughlin again, "I should like to point out that I am *not* predicting active inflation, but merely pointing to it as an ultimate possibility. It may be that the Government can continue to show red figures for another six years before such a situation would develop. But it is safe to say that an indefinite prolongation of Government borrowing from banks will eventually produce inflation because it puts dollars into the deposit accounts of millions of individuals and enterprises, and when the owners of these deposit balances begin to use them at what is considered a normal rate of turnover, shortages of goods and services and higher prices are bound to appear sooner or later. It is only a question of time."

What has here been said of bonds is also true of high grade preferred stocks. There are a considerable number of preferred stock issues which rank among the strongest investments obtainable and entitled to a higher rating than many bonds. Preferred stocks of this class are subject to the same broad factors which govern the price trend and income yield of high grade bonds. Also like bonds, preferred stocks have been called for redemption and supplanted by issues carrying a lower dividend rate; they have risen in value to a point where yields are low; and they are without means to compensate holders during a period of rising living costs.

The Case for Common Stocks

Confronted with the array of disadvantages which have been cited for bonds and high grade preferred stocks, the investor might well question the wisdom of placing any portion of his funds in either group. Yet both of these mediums should comprise some portion of a soundly constructed investment program, under almost any conceivable conditions. The investor must always safeguard himself against the unforeseen, and proper diversification is one of the strongest means. In the present circumstances, however, conditions both current and potential clearly dictate a smaller percentage of bonds and preferred stocks and a larger percentage of common stocks.

Were fixed-income securities eliminated entirely in favor of common stocks, there would be fairly substantial loss of income temporarily at least, to say nothing of the fact that the investor would be placed in the position of staking all his capital on the indefinite extension of the current business recovery. Aside from the factor of diversification, retention of from one-third to one-half of his funds in bonds and preferred stocks provides the investor with what is in effect a capital account—funds with which (*Please turn to page* 54)

Conservative Investment Common Stocks with Better-Than-Average Yield

	Recent Price	Dividend	Yield %
American Tel. & Tel	180	9.00	5.0
Liggett & Myers "B"	104	4.00(1.00)	4.8
General Motors	72	2.00(1.50)	4.9
American Snuff	62	3.00 (.25)	5.2
Commercial Investment Trust	82	4.00	4.9
United Fruit	80	3.00	3.8
Texas Corp	42	1.00 (.25)	3.0
Jewel Tea	85	4.00 (.50)	5.3
F. W. Woolworth	60	2.40	4.0
Sterling Products	75	3.80	5.0
Beech-Nut Packing	95	3.00(2.00)	5.3
American Can	126	4.00(1.00)	4.0
J. C. Penney	95	4.00	4.2
Hercules Powder	118	5.00	4.2
Loew's, Inc	56	2.00 (.50)	4.5
Best & Co	62	2.62½(a)	4.2
Melville Shoe	90	5.00	5.6
Endicott Johnson	55	3.00	5.5
General Mills	63	3.00	4.8
Chrysler	126	6.50(a)	5.2
Electric Auto-Lite	45	2.00(a)	4.4
Borg Warner	80	3.00 (.75)	4.7
United Carbon	90	3.00	3.3

(a)—Paid this year. Figures in parentheses indicate extra dividends paid this year.

International Telephone & Telegraph Co.

BY FRANKLIN KIMBALL



The Spanish war has clouded the immediate prospect of the greatest American communications enterprise operating abroad. Revaluation of gold bloc currencies has brightened its long term outlook. The stock market at the moment is paying chief attention to short term difficulties.

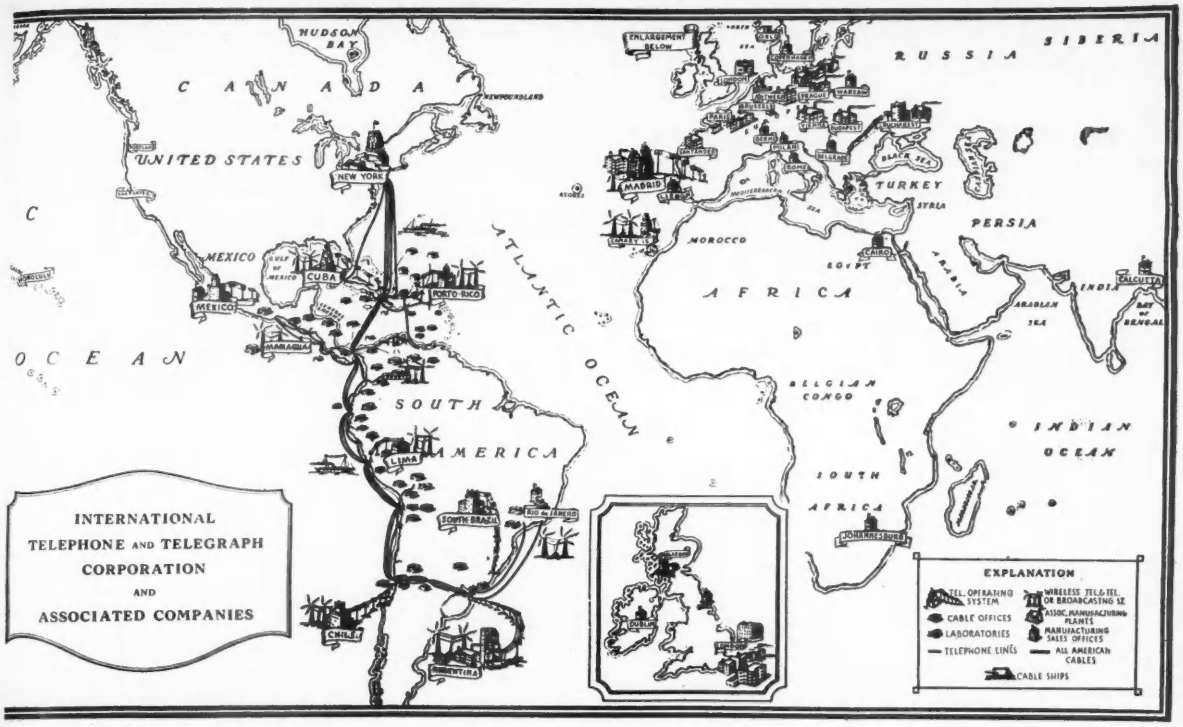
Business: Through subsidiaries manufactures telephone, radio, telegraph and cable equipment; and operates telephone, radio telephone, cable and radio telegraph communications systems in more than a dozen countries. Investment in telephone operations is more than three times that in manufacturing, but the gross revenues from manufacturing are more than twice those now being derived from communications. Dollar volume of manufactures is now above that of either 1928 or 1929, but moderately under 1930 peak of $80,000,000. Net income of manufacturing subsidiaries last year exceeded consolidated net income of the holding company, increase in telephone installations to new high record not yet having yielded adequate return on the huge investment involved. Telephone operations yield more than five times the revenues from radio telephone, cable and radio telegraph operations. Nearly half of the holding company's total investment is in Argentina and Spain, with Spain alone accounting for slightly more than 20 per cent of a $327,843,000 aggregate.

History: Started by Sosthenes Behn and his brother, the late Hernand Behn, as a telephone system in Cuba and later in Puerto Rico. Obtained J. P. Morgan & Co., banking sponsorship, incorporated in Maryland in 1920 as a holding and management company, and launched an expansion program, financed chiefly by stock issuance, which between 1921 and the close of 1929 lifted asset account from $32,563,394 to $535,203,588. Major expansion moves included telephone concession from the Spanish Government in 1924; purchase of International Western Electric Company from Western Electric Company in 1925, thus obtaining manufacturing facilities in Belgium, France, China, Argentina, Japan, Italy, Norway, Spain, Australia and England; in same year



Investments in and Advances to Subsidiaries Classified by Countries as at Dec. 31, 1935

Country	Amount	Percent
Argentina	$ 93,039,000	28.37
Spain	67,029,000	20.44
United States	39,301,000	11.99
Mexico	20,544,000	6.27
Chile	16,421,000	5.01
England	15,641,000	4.77
Germany	14,127,000	4.31
Cuba	12,760,000	3.89
Rumania	12,599,000	3.84
France	8,481,000	2.59
Hungary	5,313,000	1.62
Japan	3,787,000	1.16
Peru	3,687,000	1.12
Brazil	3,157,000	.96
China	2,777,000	.85
Puerto Rico	2,717,000	.84
Belgium	1,779,000	.54
Other countries	4,684,000	1.43
Total	$327,843,000	100.00



The far-flung geographical distribution of the activities of International Telephone & Telegraph are shown on the above map. The picture below is a plant for manufacture of telephone equipment at Paris, one of many factories in many lands.

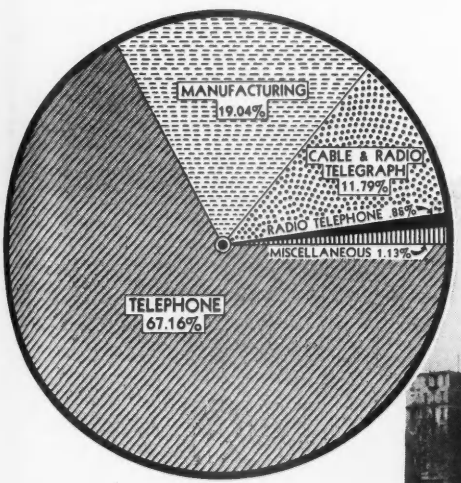


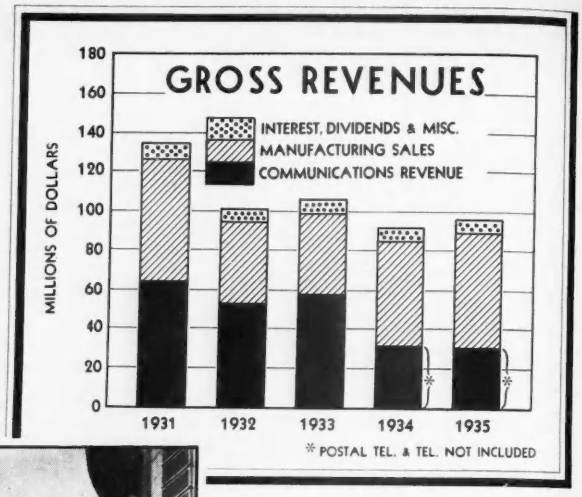
Chart above shows percentage of total investment represented by each major branch of the enterprise.



acquired controlling interest in the Mexican telephone system; in 1927 acquired All America Cables, telephone systems in Uruguay, Chile, Brazil and in Buenos Aires; in 1928 took over Postal Telegraph and Cable—since proved to have been its biggest mistake and now in receivership—acquired additional telephone systems in Argentina, Brazil and Chile and bought additional manufacturing property in England; in 1929 bought large manufacturing facilities in Germany and acquired United River Plate Telephone Company in Argentina; in 1930 took over the telephone system in Peru and greatly extended its manufacturing interests in Germany.

Depression Record: The company was forced to turn abruptly from expansion to retrenchment. It incurred $44,000,000 in bank indebtedness. Its volume of business declined, with especial severity in manufacturing, and revenues were further reduced in conversion of depreciated currencies into the dollar at the old gold parity. Various countries imposed restrictions on transfers. Nevertheless, the company avoided red ink until 1932, when loss of $3,981,171 was incurred. Its fortunes took a turn for the better upon revaluation of the dol-



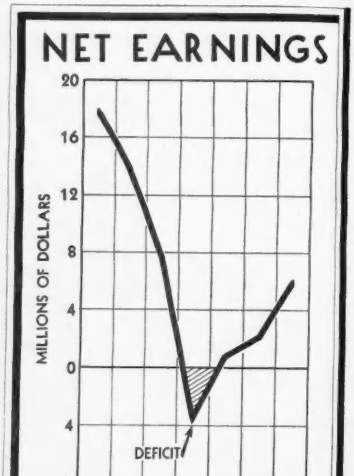


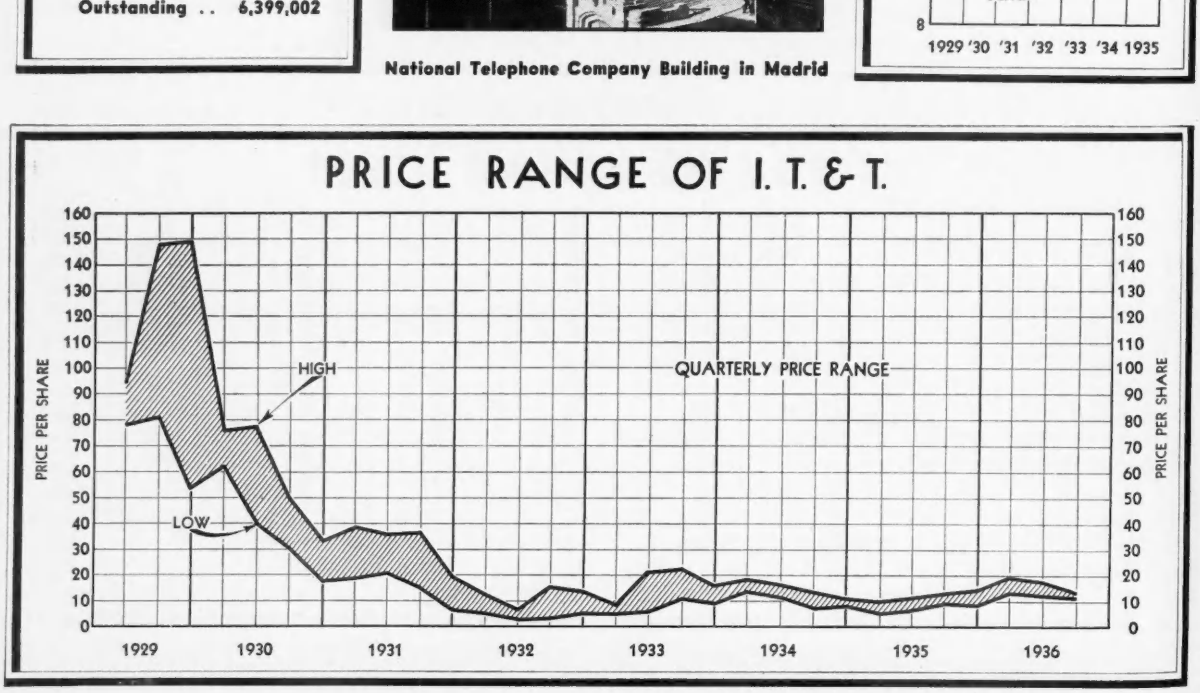
Capital Structure Gives Leverage to Common Stock

Subsidiary Funded Debt	$19,028,000
Subsidiary Preferred Stocks	10,834,550
Subsidiary Minority Interest	4,107,061
I. T. & T. Funded Debt	122,661,100
Common Shares Outstanding	6,399,002



National Telephone Company Building in Madrid





lar, which ended exchange losses. Thereafter, recovery in most countries began to swell revenues, especially from manufacturing. Another major drain was cut off when the bankrupt Postal Telegraph system was eliminated from the consolidated account. Bank loans were progressively pared down and interest reduced on the remaining current debt, now some $27,000,000. Plans to refund a portion of outstanding debentures due in 1939 have been indefinitely postponed, due to the uncertainty of the present situation in Spain and its bearing upon International Telephone.

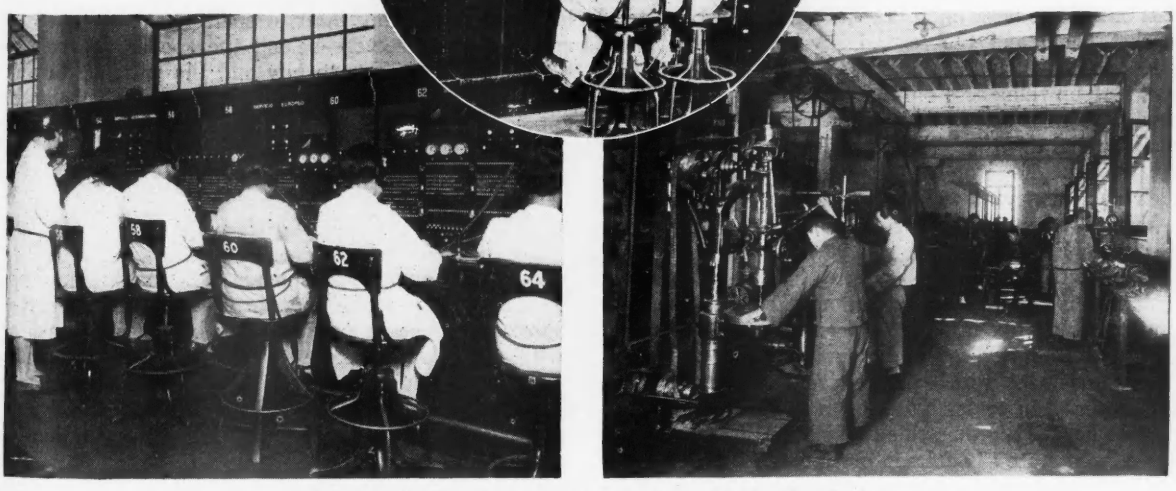
Capitalization: There are outstanding 6,399,002 shares of no-par value common stock preceded by $19,028,000 in funded debt of consolidated subsidiaries, $10,834,000 in preferred stocks of subsidiaries, $4,107,000 interest of minority stockholders in subsidiaries, and $122,161,000 in debenture bonds of the parent company. The common stock, therefore, possesses leverage in considerable degree.

Earnings: Peak earnings of $2.95 per common share were shown in 1929, followed by $2.07 in 1930, $1.20 in 1931, a deficit in 1932; profit of 11 cents per share in 1933, 32 cents in 1934, 90 cents in 1935 and 52 cents for the first half of 1936, the latter figure comparing with 33 cents in the first half of 1935. Dividend of $2 a share on the common was successively reduced to $1, then to 60 cents and omitted in 1932.

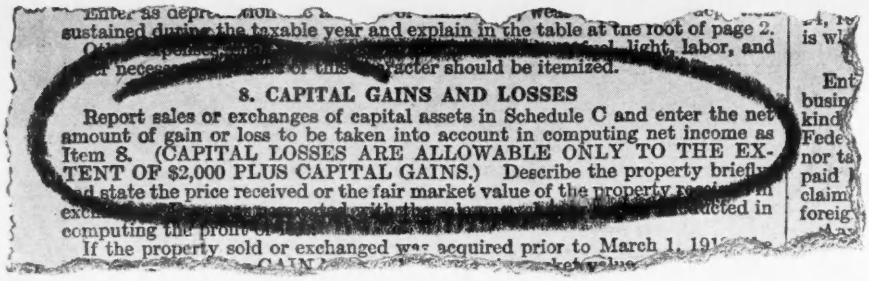
Market Action: The common stock reached a bull market high of 149¼ in 1929 after being split three-for-one and in the closing months of that year dropped to 53. In 1930 it ranged between 77⅜ and 17½; in 1931 between 38¾ and 7⅛; in 1932 between 15¾ and 2⅝; in 1933 between 21¾ and 5⅛; in 1934 between 17¾ and 7½; in 1935 between 14 and 5⅝; and during 1936 to date between 19¼ and 11⅛, the current quotation being 13⅜. It will thus be seen that the difficulties confronting this enterprise have kept the stock in a depression range throughout nearly four years of general market recovery and that the highest level of recovery was reached in the summer of 1933, each peak since then to date having been under the 1933 top despite substantial improvement in earnings.

Current Asset Ratio: As of the latest balance sheet current assets amounted to $75,585,000, of which $28,857,000 was cash; and current liabilities to $50,911,000. It must be noted, however, that the current liabilities are chiefly in the United States, while a substantial portion of current assets are in foreign countries. Of cash holdings of $28,857,000 at the close of last year, $20,236,000 was in foreign countries and $17,991,000 of this in countries with exchange restrictions. Moreover, out of this restricted total of $17,991,000, there was $13,733,000 in Spain.

Prospect: Recent weakness in the stock has reflected uncertainty as to the outcome of the Spanish civil war. On present indications it appears probable that the conservative forces will win, in which event fear of possible confiscation of International Telephone's Spanish holdings will be eliminated. Some losses from property damage are certain. What these may amount to the company itself cannot know. Since dividends, interest and fees received from the Spanish company in the first half of this year amounted to $3,267,000—or almost the total of $3,353,000 profit reported by the parent company for that period—it is obvious that consolidated earnings for the second half year will make an unfavorable comparison. The immediate effect of franc devaluation will be unfavorable, since conversion of depreciated francs will foot up to fewer dollars. For the longer term the promise of currency stability and increased world trade resulting from the monetary accord between France, Great Britain and the United States should brighten International Telephone's outlook. However speculative, the shares appear cheap in relation to what will almost certainly be earned in 1937—assuming a favorable termination of the Spanish war.



Left: Long distance board at Buenos Aires. Center: Terminal equipment at Rio de Janeiro. Right: Plant at Shanghai.



sustained during the taxable year and explain in the table at the foot of page 2.

acter should be itemized.

8. CAPITAL GAINS AND LOSSES

Report sales or exchanges of capital assets in Schedule C and enter the net amount of gain or loss to be taken into account in computing net income as Item 8. (CAPITAL LOSSES ARE ALLOWABLE ONLY TO THE EXTENT OF $2,000 PLUS CAPITAL GAINS.) Describe the property briefly and state the price received or the fair market value of the property

computing the profit or

If the property sold or exchanged was acquired prior to March 1, 191

Tax on Security Profits Abolished?

What of Stock Prices If the Levy on Capital Gains Is Removed?

BY M. L. SEIDMAN, C.P.A.
(Tax Consultant)

The elimination of the Federal Income Tax on capital gains would be the greatest thing that ever happened to the stock market. The immediate effect, however, would quite likely be a very serious decline in security prices. That sounds like a paradox and invites investigation, especially because of the predictions currently heard from many sources regarding the possible elimination of the capital gains tax by the next Congress.

A Brake on Free Markets

Admittedly, a heavy tax on security profits acts as a brake on a free and natural security market. It creates a set of artificial conditions which tend to inflate stock values out of all proportion to the business factors upon which stock values would otherwise be based. There is not much argument, for instance, over the proposition that one of the most important factors in the 1929 stock market boom and the related sky rocketing of stock prices to ridiculous heights was, for the most part, the result of unwillingness on the part of people who had profits, to take them and pay an income tax on them. They figured they were risking mainly the Government's tax money. Eventually, however, they lost that and their own money as well. Will history repeat itself?

Well, if that was the situation in 1929 when the maximum Federal tax rate was 25 per cent and the tax on capital gains only 12½ per cent, how much more tax dynamite is there in the present market situation with the maximum tax rate at 79 per cent and the capital gains provision such as to discourage selling because of the arrangement which progressively reduces the tax, as the period of ownership prior to sale increases.

And, here is another thing which further aggravates the present state of affairs in our security markets. The public—that is, for our present purposes, the small income taxpayer; the man who is not worrying about the higher surtax brackets—is nowheres near as deeply in the stock market today as he was in 1929. It's the bigger fellow that has been the aggressive security buyer in the past few years. In fact, if we are to judge by the proportion of brokers' loans to listed values, the public—the margin buyer and small speculator—has not yet entered the market to any great extent. It's the larger investor for the most part; the man of some means, who today has substantial unrealized security profits. It was his purchases that were, for the most part, responsible for the revival of our security markets in the early stages.

It probably took more courage to buy stocks when they were sinking into oblivion and when everybody was wearing blue glasses than it does today when the momentum of recovery is rapidly gaining headway and optimism is where formerly there was nothing but pessimism and utter despair. To the victor—and the tax collector—belong the spoils. Those who then had the courage to buy and the patience to wait are now rewarded, in most instances, by substantial appreciation in the market value of their purchases. But! appreciation is one thing; realization in the shadow of the tax collector is quite another.

Profits Bottled Up

There are many, now sitting on a mountain of appreciation, who would normally—in a free market—translate at least a portion of their profits to cash or switch to other investments that they consider more attractive. But there stands the tax barrier, a mighty deterrent to freedom of action, and incidentally, an effective blockade to the natural self-regulation of security prices.

Take an extreme case for emphasis. The highest income tax rate under our present Federal tax laws

is 79 per cent. In addition, many States also have an income tax. New York, for instance, collects an additional 7 per cent in the maximum bracket, so that if such an individual, a New York resident, were to cash in on his short term security profits, he would have to part with $86 of profit to every $14 he retains. Where is the inducement? What chance is there for him to sell—at any price!

Now, let's move away from the extreme and come nearer to a more typical case in the surtax brackets. Allow in addition, for a scaling down of the taxable profit on account of having carried the securities for more than a year, or two—or even five. And we still have a situation where, in numerous cases, perhaps as much as half the profits are eaten up by taxes. Pick at random a half dozen of the popular stocks. Take their current market prices as against their depression lows, and we find that unrealized profits per share in such cases may be in dollars per share about as follows:

Allied Chemical	$170	Eastman Kodak	$140
American Telephone	100	Intern't'l Bus. Mach.	120
Case, J. I., Co.	130	Westinghouse Elec.	140

The average appreciation here is about $130 per share, and the owner of such stocks who is subject, we will say, to a 50 per cent tax, figures that even if prices on the average go off as much as $65 per share, it would really represent only the tax he would have to pay per share were he to sell. As a result, he usually decides not to sell. So that the Government doesn't collect the tax and the security owner rides along with the tide for better or for worse—with this important effect however—his stock in the meantime, is being kept off the market. The more there is of this sort of thing, the harder it becomes to buy these stocks and the higher their prices advance. The higher prices rise, the greater the unrealized profit. The greater the unrealized profit, the greater the likelihood that the owner would not sell. Thus we have another example of the perfect workings of a vicious circle.

With this picture in mind, what do you suppose would happen if the tax were suddenly removed or its removal suddenly became imminent? We then have this situation. The barrier to a sale has been removed, and with it, has gone the Government's readiness to absorb a loss in the market value. *(Please turn to page 62)*



Why the Capital Gains Tax Should Be Eliminated

BY U. S. SENATOR WILLIAM H. KING

The following statement which Senator King, ranking member of the Senate Finance Committee has made for THE MAGAZINE OF WALL STREET *is of particular significance. It follows his recent announcement, made after consultation with Treasury officials, that legislation looking toward drastic changes in the Capital Gains Tax would be introduced in the next session.* (EDITOR.)

The capital gains tax has resulted in greatly complicating our income tax provisions. Great Britain, after a study of the question of taxing capital gains, declined to incorporate the principle in its tax structure. As a result of the enactment of the provisions for taxing capital gains it has been necessary to enact provisions dealing with the rules relating to exchanges, reorganizations and the basis for ascertaining gains or losses upon the sale or transfer of property. These provisions have resulted in litigation and are so complicated that even the ablest experts and lawyers are unable to definitely determine in many cases what the law actually is.

Not only has the capital gains tax complicated the structure of our revenue laws, but it has also placed a heavy economic burden on the taxpayer, and, in my opinion, has caused in many cases a loss in revenue to the Government for the reason that a tax on capital gains tends to retard sales and diminishes the revenue derived from stock and bond transfer taxes, as well as taxes on the conveyances of real property. It is contended by many that the revenues that would be derived from stock and bond transfers and conveyances of real property would be larger than the tax on capital gains. In other words, any loss of revenue because of the repeal of the capital gains tax would be compensated by the increased revenues derived from stock and bond transfer taxes and taxes on real estate conveyances. Moreover, the Government will obtain considerable revenue from the increased commissions made by brokerage houses as the result of the increased sales.

Some of the objections to the capital gains tax may be summarized as follows:

1. It retards sales of property instead of encouraging them; a taxpayer who will realize profits on the sale of property will be disinclined to dispose of it because of the tax, at least for a considerable period of time, and the Government would be the loser.

2. On the other hand, a taxpayer, in order to offset a taxable gain, will desire to dispose of property immediately in order to obtain full credit for the loss; because under the bracketed schedule the longer he holds the property the smaller his loss will be for income tax purposes. Over a long period of time it is contended by many that but little revenue is derived from the tax on capital gains.

3. It is believed by many that the elimination of the capital gains tax would have the effect of eliminating or modifying one of the causes of inflation. Its repeal, it is contended, would have a tendency to make market conditions more stable and thus pave the way for more prosperous conditions.



Significant Foreign Events

By GEORGE W. BERKALEW

Foreign Representative of THE MAGAZINE OF WALL STREET

Spanish Loyalists Not Beaten Yet

In Spain the rebel army is within twenty miles of Madrid; possibly by the time that this appears in print the capital will have fallen to Generalissimo Franco and his Moorish mercenaries. While unquestionably the loss of Madrid would be a severe blow to the Loyalist forces, it does not follow that the cessation of the war would be necessarily automatic. The seat of the Government might be moved southeastwards into territory generally sympathetic to the Loyalist cause. Admittedly outclassed on the field of battle—possibly only because of direct German and Italian aid—the constitutional government of Spain is proving to possess a firmer seat than was once thought. It has the outright moral support of Russia, which if recent threats mean anything may well become actual support; it is backed, albeit somewhat halfheartedly by France, and England as a whole is probably sympathetic. The war resources of the Loyalists are potential rather than actual and time is working for them. Their soldiers are raw recruits, but every day they fight makes them that much better; they are out-classed in armaments, but so long as they possess control over the not inconsiderable gold holdings of the Bank of Spain the situation is subject to remedy. They possibly possess also one or two trumps of a political nature. It has been reported, for example, that the rebels have promised Italy the Balearic Islands in exchange for her help—much to England's disgust, of course. Might not the Loyalists promise the Moors their freedom in exchange for calling off the dogs of war? Further, might not such a promise, by fanning the fires of independence throughout all Islam, bring pressure upon both England and France? After all, the lid is only kept on in French Morocco, Syria, Egypt and Palestine with difficulty. From day-to-day accounts the Spanish rebels are indicated as the winners, but if the Loyalists can only recognize and utilize their high cards the outcome might surprise the world.



Sovfoto

U. S. S. R.—State Bank Building and G. F. Grinko, Commissar of Finance

☆ ☆ ☆

Soviets Make a Capitalistic Gesture

During the past few months financial activity has been pushed apace in the Soviet Union. The exchange value of the ruble has been rationalized since a devaluation has absorbed much of the absurd disparity between its official and black bourse quotations. Credits have been cheapened where possible. Bread cards have been abolished and prices forced down. As a logical part of the whole movement, it has now been decided to convert the outstanding state debt, reducing the interest rate from the 10 per cent and 8 per cent now paid to 4 per cent. As an evidence that even the exclu-

sive bolshevik likes to run with the herd, and is not above taking a lesson from capitalistic society when he needs the lesson to thrust home some advantage to the state, it is amusing to find that the soviet publication "Economic Life" justifies the conversion by stating that "Most of the capitalistic countries are paying low rates of interest on their domestic loans." Thereupon like the very worst of capitalistic countries, Russia is imposing a compulsory conversion upon the 50,000,000 workers who hold her present internal bonds. Simultaneously, a new loan at 4 per cent amounting to 4,000,000,000 rubles is being issued, to run from September 1, 1936, to September 1, 1956. The compulsory conversion affects about 14,500,000,000 rubles worth of bonds, which were to have fallen due in 1942, but are now also to be prolonged for twenty years. The new state debt will approximate 19 billion.

The excuse for extending the life of the loans is that their repayment in 1942 would have resulted in a dangerous inflation of the currency. The repayment would have had to be made by printing press money, for the enterprises in which the original loans had been expended would not be making such large returns within so short a time as to justify amortization by 1942. This issue of money without background might undo all the benefit which the soviet economists hope to derive from the present campaign to stabilize the ruble at a high purchasing level. The workmen investors are assured of the fact that the rubles paid out on the new 4 per cent Unified debt will buy more, according to plan, than the rubles which would have been paid out had the old 10 per cent loans continued to drain the state's resources. Besides, 10 per cent was a usurous charge on the economy of the nation, and is no longer justified or necessary.

With the lure of high interest, the lure of fine sounding names is also being discarded. The 14,500,000,000 ruble debt of the soviet state has been made up, until the present, of loan issues with an absolutely histrionic appeal: "The Loan of the Five-Year Plan in Four Years," "The Loan of the Third Decisive Year," "The Loan of the Fourth and Concluding Year of the Five Year Plan." The new and the converted loan will be lumped together to represent "The 4 per cent Unified Debt."

☆ ☆ ☆

Japan Inaugurates a New Deal

Recent advances in the Japanese security market, and the strength especially of the dollar issues, has been laid at the door of a Japanese New Deal. Realists insist that the essential element in the program, however, is not the fact that many experiments hallowed in Washington are now being undertaken in Tokio, but rather that the economic and financial program of the Nipponese government is more moderate than had at one time been feared by the conservative financial section of the country.

Japanese policy for the coming year has been set forth by the Cabinet as follows: There will be the inevitable perfection of national defence, which all major and most minor countries are now permitting themselves. There will be tax revision, with the central government helping the provinces by a subsidy—a similar scheme to that suggested for the improvement of the relations existing between our own national government and the 48 still nominally sovereign states. There will be a move toward the control of electric power supply, more sweeping in its way than the T. V. A., and embracing all holding companies under government control. There will be the proverbial Farm Relief for the "stabilization of the life of the race." The Labor supply will be nibbled down by a prolongation of the school years. Foreign trade will be expanded, and foreign trade in national bottoms encouraged through shipping grants. Finally, vast resettlement projects are optimistically envisaged not domestically, as in the U. S. but a migration of labor from the crowded Island Empire to the new mainland dependency, Manchucuo.

A Japanese statistician has calculated that every four minutes sixteen Japanese babies are born, ten Japanese subjects die. At this rate the islands now teeming with 70,000,000 people will have a population of 100,000,000 twenty-five years hence. Manchuria, just across the narrow seas is practically empty—about 30,000,000 Chinese, 900,000 Japanese Korean subjects and 100,000 Japanese proper. To raise this final figure to five million is the aim of present Nippon policy. According to the Osaka Asahi, 1,800,000,000 yen will be utilized to transport one million Japanese families to Manchuria within the next five years. The Ministry of Overseas Territories intimates that this may even reach two billion; 800 million by government appropriation, the rest from private companies; first and foremost the Society for the Development of Manchuria, authorized to issue state Guaranteed Bonds up to a total of 300 millions for the settlement of 25 million acres.



Gendreau

In Japan,—"Farm Relief for the Stabilization of the Race"



Gendreau

Steel

BY WARD GATES

Forecasting the Outlook of the Most Basic Industry

As STEEL GOES, so goes the nation. We are talking business, not politics. Throw away every statistical barometer and thermometer except steel production, and you will still have a reliable clinical chart of the heart throb of American business. In the flow of consumer goods, of consumers' durable goods and of producer goods, steel reflects the pulse of many industries; and in the endless building and rebuilding of the facilities necessary to serve these diverse markets is itself the origin of a large volume of capital goods.

If you closed your eyes to every other evidence of economic illness but observed that steel production was at 30 per cent of capacity, you would know that depression had us in its grip. When you see steel at 76 per cent of capacity—as it is today—you know infallibly that depression has been licked, floored; that it's down for the count of ten and out. The reason you know it is because no possible amount of activity in consumer goods can keep steel at 76 per cent of capacity. That production rate would mean upward of 50,000,000 tons of steel ingots a year, and the use of 50,000,000 tons of steel would require simultaneous activity in consumer goods, consumers' capital goods and producer goods. When you have simultaneous vigor in all three main classes of goods, you have general prosperity.

Steel production this year will not reach 50,000,000 tons, because the present 76 per cent rate has by no means prevailed throughout the past ten months—but it is quite certain to reach 46,000,000 tons, barring some catastrophe that would result in wholesale cancellation of orders right now on the books of the steel mills. Such bookings are the largest since 1929, and while there may be a few speculative elements in the picture pointing to forward stocking beyond minimum needs, nevertheless orders placed are assuredly in closer gear with probable early needs of consumers than they were in 1929. For one thing, deliveries are faster than in 1929; for another thing, the depression experience is still too vivid for buyers to abandon caution; and for a third thing, current orders in steel are no more impressive than orders in the various industries buying steel. The metal is not going into yards and warehouses. It is going into consumption.

On the basis of the present backlog of orders, the certainty of a fast rise in automobile production during November and a sustained high level of such production in December, and the probability of additional heavy orders of rails in November, there is no possibility of an early relapse in steel. Indeed, the production rate is more likely to pass 80 per cent of capacity than to recede before the Christmas holiday slackening. Even if there should be some pause near the end of the year, projection of the present trend would mean that the seasonal rise early in 1937 would take steel above 85 per cent of capacity—and it is simply not possible for it to advance appreciably above that level for the

reason that it represents virtually the limit of efficient capacity, the remaining 15 per cent being conceded to be hopelessly outmoded.

Since time will be required for the industry to carry out the expansion and modernization program now under way or in prospect, this means that we are aproaching a level of stability in steel operations at a gratifyingly high level. Such stability, rather than further sharp advance, will tend to flatten out the composite business index, but stable operations above 75 per cent of capacity for an extended period would mean handsome profits to most steel companies, though the heavy steel makers, such as United States Steel, will require virtual capacity operations sustained through the year to come even close to past peak earnings.

On the Way Back

On present indications steel volume during the remainder of the year will be sufficient to establish the average 1936 operating rate at somewhere between 66 and 68 per cent of capacity. In 1935 the average rate was 48.7 per cent of capacity. In 1932 it was only 19.7 per cent. In 1929 the average was 87.9 per cent—which meant clover for almost all steel makers.

In terms of physical volume—a more accurate measure since capacity has been substantially increased in the depression years—fourth quarter output should prove to be around 13,500,000 to 14,000,000 tons of ingots. This would make 1936 output of at least 46,000,000 tons. The latter figure is 85 per cent of the record high output of 1929, and is slightly above the average for the period 1923-1928.

Bearing in mind that business activity on a per capita basis is still somewhat below normal and that capital goods activity is still fully 25 per cent under the 1923-1928 level, one must conclude that further expansion in steel volume is likely to be limited not by demand, but by the available physical capacity of the steel mills. Construction is far below normal. Buying of heavy equipment by utilities is depressed. Buying by the railroads remains far under former levels, despite huge percentage gains from the low level of 1935 and prior depression years. In these three fields, plus an expected 5,000,000-car year in automobiles and further gains in durable consumer goods, we have the makings of capacity business for steel.

Who will make the money and how much? It is simple arithmetic that the odds lie preponderantly in favor of the makers of heavy steel products. Companies making primarily light steels are generally at or close to capacity now. Hence, further percentage gains will be limited. Steel stocks falling into this class should be considered primarily for stability of earning power at a satisfactory level and for dividend return. The leading heavy steel makers, however, have but recently passed the "pay point" and even moderate further gains in operating rate can be translated into remarkable earnings gains because of leverage in both plant set-up and capitalization.

Rapid Earnings Gain

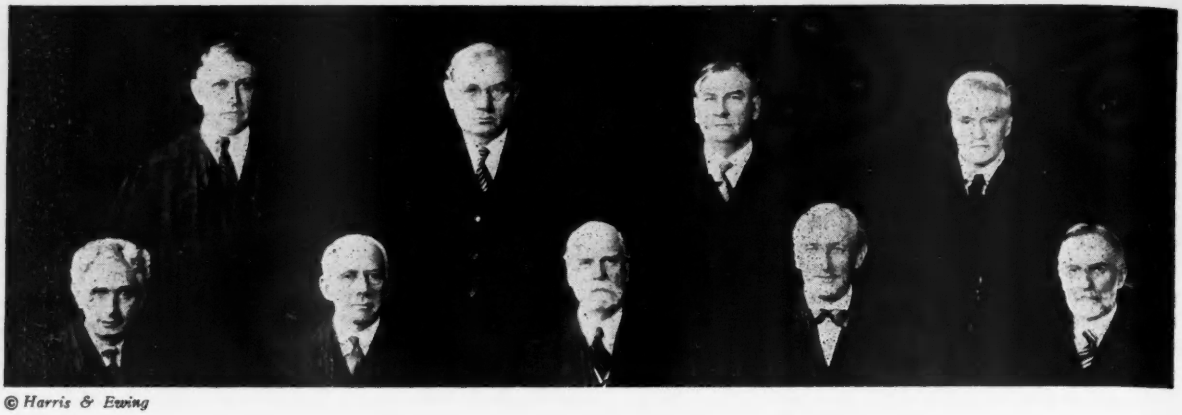
For example, United States Steel operated at an average of 83.4 per cent of capacity in 1928 and earned $12.50 per share on its common stock. In 1929, it operated at an average of 89.2 per cent of capacity and reported earnings of $21.19 per share. The difference was less than 6 points in operating rate, but more than $8 per share in profits.

Let us hasten to emphasize that estimating the profit prospect for this company is by no means as simple as the above comparison may imply. The price of steel and the cost of labor, *(Please turn to page 56)*

Steel Earning Compared

	Per common share (basis present capitalization) 1929 $	1932 $	1933 $	1934 $	1935 $	First Half 1936 $	First Half 1935 $	Dividend $	Recent Price $
MOSTLY HEAVY STEEL									
Bethlehem Steel	11.02	(d) 8.11	(d) 4.77	(d) 1.87	(d)0.70	0.17	(d)0.65	....	67¾
Jones & Laughlin	29.04	(d)20.86	(d)14.80	(d)11.91	(d)7.82	(d)3.25	(d)4.87	....	60¼
U. S. Steel Corp.	21.19	(d)11.08	(d) 7.09	(d) 5.39	(d)2.77	0.42	(d)1.78	....	70
Youngstown Sh. & Tube	17.28	(d)11.75	(d) 7.64	(d) 2.91	0.64	3.39	(d)0.74	....	78⅜
MOSTLY LIGHT STEEL									
Acme Steel	7.42	0.06	2.80	3.11	5.37	2.76	2.85	*3.00	63
American Rolling Mill	4.24	(d) 1.26	(d) 0.46	0.50	2.26	1.02	1.40	1.20	28½
Continental Steel	†3.54	†(d) 1.52	†(d) 1.48	†1.63	†1.68	†2.67	....	2.00	34
Eastern Rolling Mill	2.48	(d) 2.32	(d) 1.32	(d) 1.65	(d)0.64	(d)0.02	(d)0.51	....	7⅝
Granite City Steel	6.50	0.05	1.99	1.01	2.42	0.28	1.23	1.00	29½
Gulf States Steel	5.93	(d) 3.93	0.27	(d) 1.00	0.01	0.69	(d)0.54	....	57
Inland Steel	9.76	(d) 2.77	0.14	3.11	6.54	3.63	3.38	3.00	115
National Steel	5.68	0.77	1.30	2.81	5.16	2.40	2.93	1.50	69½
Otis Steel Co	3.42	(d) 4.32	(d) 2.75	(d) 0.29	1.69	0.59	1.17	....	17¼
Republic Steel	....	(d) 7.58	(d) 3.83	(d) 3.43	0.49	0.44	0.47	....	23¼
Sharon Steel	3.69	(d) 5.61	(d) 0.77	(d) 0.03	2.74	1.15	1.44	....	24
Superior Steel	0.63	(d) 5.22	(d) 2.22	(d) 2.30	0.41	0.77	0.06	....	16¾
Wheeling Steel	13.30	(d)14.38	(d) 6.63	(d) 4.52	3.12	(d)0.68	1.19	....	32
MOSTLY ALLOY STEEL									
Allegheny Steel	5.04	(d) 2.10	0.10	0.99	1.50	1.36	0.63	§1.60	36
Crucible Steel	14.25	(d)11.92	(d) 4.68	(d) 3.72	(d)1.07	0.86	(d)0.93	....	52⅞
Ludlum Steel	1.85	(d) 0.95	0.32	0.89	1.21	0.75	0.69	1.00	29

*—Plus extras. †—Fiscal year ended June 30.



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The Supreme Court Will Decide

Many New Deal Acts of Vital Concern to Business and Investors Will Be Tested in Current Term

BY THEODORE M. KNAPPEN

WHAT the New Dealers refer to as the third chamber of the national Legislature is now at work reviewing the legislation enacted by the House and Senate relating to the New Deal during the last two or three years. In addition to the ten cases in this category already disposed of by the Court at earlier sessions, 17 New Deal controversies bobbed up before the October term on October 5. Other cases are in the inferior courts on the way up and it is quite possible that the high court will deal with 20 or 25 topics before it adjourns next May.

The present term is expected to dispose of the revised Frazier-Lemke Farm Moratorium Act, the National Labor Relations Act, the Railroad Retirement Tax Act, Unemployment Compensation Act, the New York State Unemployment Act and the California-Illinois Fair Trade Acts. Also the Government's authority under the National Industrial Recovery Act, to make grants and loans (PWA) for construction of municipal power plants in competition with private plants.

Important Acts Will Come Up

Among the other notable acts whose perpetuation as valid law depends on the will of the court at this session, are the Securities and Exchange Act, the Public Utilities Holding Company Act, the Social Security Act and the Federal Communications Act; but not all of them present constitutional disputes, which is the case with the other group. However, another group of constitutional hair splittings is being uncovered in the lower courts.

The National Industrial Recovery Act controversy comes up in the form of the Duke Power Co. case, in which that utility company challenges the validity of a PWA loan and grant to a South Carolina county on the theory that Title II of the National Industrial Recovery Act is unconstitutional.

Is Unemployment Insurance Legal?

The right of a state to compel contributions by employers to unemployment insurance funds and to enact price laws to prevent price cutting by retailers of articles sold under brand or trade names comes up in four cases. The first of these questions is raised in cases coming from New York, which question the constitutionality of the New York unemployment compensation law, and the second arises in the form of a test of the California State Fair Trade Act. The court has already announced that it will hear arguments in all of the cases mentioned in this paragraph. Later on it is expected that of the cases already on the docket the Court will certainly consider that of the authority of the Federal Government to regulate relations between employers and employees. Congress' power to grant a moratorium to farmers, will be up for final disposition, and the constitutional power of Congress to prohibit shipment in interstate commerce of prison-made goods. Also, it is certain that the big question of the national power to levy taxes to support social security payments will be disposed of.

Although the Court has refused to grant a rehearing of the 5-4 decision which invalidated the minimum wage law of New York State, similar statutes of other states which raise the issue of the Federal Government's

power to finance municipal power projects are certain to be tested.

All of the 400 cases now on the docket, with possibly two or three exceptions, derive from laws passed since March 4, 1933, although only a relatively small number of them would be considered characteristic New Deal decrees. The only fundamental cases which it is now assured will be heard by the Court, outside of the PWA controversies, are ones affecting the constitutionality of the Labor Relations Act and a question of the applicability of that act to relations between newspapers and their editorial employees.

Monetary legislation comes up in the form of the Silver Purchase Act. The Supreme Court has consented to hear the contention of the Court of Claims that the 50 per cent tax on silver profits in connection with the Silver Purchase Act is unconstitutional.

A case of wide interest to the financial world is one testing the power of the Securities and Exchange Commission, which arises in a "picked" case to test the basic provision of the Securities and Exchange Commission Act, which compels registration of corporations with the Commission. This is the well known case of the Electric Bond & Share Co. In another case the defendant to an action begun by the Commission is protesting against the refusal of a lower court to dissolve an injunction *pendente lite*.

Two other cases are brought to invalidate the action of lower courts in seeking to enforce the Public Utility Act before the termination of the suit in the Electric Bond & Share Co. case.

Investors will also take a keen interest in Case No. 74, which involves an order of the Federal Communications Commission, establishing a uniform system of accounting for telephone companies.

Income tax cases have piled up to the extent of one-sixth of the business before the court. A habitual quarrel is whether taxpayers are dealers in securities, as defined in Section 22 of the 1928 Revenue Act and therefore entitled to inventory securities at cost or market prices in calculating income. Another commercial row concerns the right of a manufacturer to invoice his stocks on hand as a result of contract failure at market rather than cost price.

Among other cases of corporate interest is one involving the constitutionality of the Railway Labor Act as amended in 1934 in application to "back shop" employees.

The millions of persons having life insurance policies will be interested in Case No. 27, which raises the question of whether funds held by a life insurance company as a reserve against all survivorship investment policies are truly "reserve funds" required by law, within the meaning of Section 203 (a) (2) of the Revenue Act of 1928. The same issue is also raised in consolidated Case (43 and 44) relating to the rule for determining gain or loss on the sale of stock received as compensation for services rendered but not included in income return.

Two cases affect the liability of transferees in certain contingencies.

A municipal engineer is contending that his remuneration in the form of salary and commission is exempt from taxation. A sub-lessee advances the argument that income derived by it from the operation of an iron ore mine is exempt because the land is owned by the State of Minnesota.

One case raises the question of the applicability of "the first in, first out" rule for fixing gain or loss on the sale of shares of stock. Another interesting tax question is raised concerning the liability of corporations to the 50 per cent surtax on the ground that they piled up gains and profits in order to avoid the special surtax assessed against the shareholders. A case which is bent with age is one in which the Court is called upon to say whether under the 16th Amendment depletion deductions should be based on March 1, 1913, value instead of figures in excess thereof, if they represent the cost of the property.

A number of interesting cases in bankruptcy will be disposed of. An extensive list of cases includes many originating in state taxation, such as taxation of income, chain stores, licenses, gross production, property and bank shares. The chain store tax laws of Iowa and Florida are before the Court. So are the license taxes of Louisiana on cleaning and dyeing establishments, and of certain license laws of Wyoming and Virginia. State taxation laws are involved in cases originating in Montana, Oklahoma, Iowa. (*Please turn to page* 61)

Some of the 400 Cases Before the Supreme Court

- Railway Labor Act
- Public Utilities Regulation Act — Electric Bond & Share Test case
- Rehearing of Municipal Bankruptcy Case
- Constitutionality of Title II of NIRA (PWA)
- Constitutionality of state fair trade acts
- Constitutionality of New York Unemployment Compensation Act
- Revised Frazier-Lemke Farm Moratorium Act
- Regulation of Public Utilities
- Conflicts of State and Federal Taxes
- Validity of State License Taxes
- Montana and Oklahoma Oil Production Taxes
- Ohio Cigarette Tax
- Various types of bank stockholders liability
- Two Anti-trust Acts Cases
- Many cases arising from Federal Income Tax Laws
- Validity of resolution of Congress abrogating gold clauses in obligations providing for the payment of rentals in gold or the equivalent in currency
- Liability of transferees
- Several issues of constructive receipt of income
- Question of whether accrued interest on loans secured by mortgages constitutes taxable income to the mortgagee when he acquires title to the property upon foreclosure, where the fair market values are lower than the purchase prices
- Many cases involving Federal taxes other than income
- Several disputes under the Federal bankruptcy laws
- Constitutionality of state, chain store and other commercial taxes
- Constitutionality of various state license taxes
- Liability of stockholders in national banks

The Building Stocks . . .

BY J. C. CLIFFORD



Gendreau

According to the Department of Labor's figures the value of building permits issued in the first eight months of 1936 in cities with more than 10,000 population was 74 per cent over the corresponding period of 1935. An even more sensational gain was shown by residential construction which registered an increase of 131 per cent.

While such improvement unquestionably is impressive, there are two points to remember in connection with the gain: 1. Building activity was virtually at a standstill during the years of depression, the improvement was slow to get underway and the initial spurt naturally is impressive on a percentage basis. 2. Such high hopes have been held for the industry over the past year or two that even the substantial gains registered must be considered as relatively disappointing. The first of these points explains why price-cutting can break out in some lines at a time when the industry apparently is going ahead by leaps and bounds. The second shows how it is possible to overdo even a very good thing. However, so long as the bright future for building materializes ultimately, the present period of disappointment will pass with patience.

That the future outlook for building is bright, is hardly open to question. One can point to the depression, the potential demand that was built up in those years; needs of a growing population and come to the conclusion that with public purchasing power on the uptrend, building must inevitably boom. All this is perfectly valid; the only difficult feature of a building forecast is in the timing.

Construction, particularly residential construction, has an effect upon every other line of activity. A demand for houses, not only means a demand for cement, lumber, plaster, roofing and those things going directly into a house, but a demand for draperies, furniture, electrical apparatus, fixtures, wiring and the thousand and one other items with which man comforts himself *inside* his home and place of business. Because so much goes into a building it is hard to draw a line between those companies that may be considered reasonably direct beneficiaries of construction and those that are not affected with reasonable directness. In the accompanying table, however, will be found a wide selection of companies with a diversified line of products that are calculated to be favored by the continuing improvement in building.

Companies Associated With Building

COMPANY	BUSINESS	Earned per Share 1935	Earned per Share Est. 1936	Current Price	Divs. Dec'd This Year	COMMENTS
Alpha Portland Cement	Cement	def	$1.10	29	1.00	Although the company has been slow to reach black figures, the turn has arrived at last and earnings from this point may well rise rapidly. The company is strong financially and there is neither funded debt nor preferred stock ahead of the common.
American Radiator & Std. Sanitary	Plumbing & heating equipment	$0.24	1.00	23	0.15	Large capacity was a handicap during the years of building stagnation, but further gains in construction should enable this large capacity to be employed at a great reduction in costs.
Archer-Daniels-Midland	Linseed & other oils	4.20a	3.04a	40	1.50	Balance sheet as of June 30, last, shows inventories nearly $8,000,000 above those of the previous year. Company's business is being materially aided by expanded demand for paint materials.
Armstrong Cork	Floor coverings and other cork products	2.84	3.25	56	1.12½	Stockholders have been officially reassured that civil war in Spain will not affect the company's foreign operations. Would seem to be in a position to pay a substantial extra before the year-end.
Crane Co	Sanitary ware, valves, fittings, pipe	0.18	1.00	43	....	Company doing much better, although arrears on the preferred as of September 15 still totalled $22.25 a share.

COMPANY	BUSINESS	Earned per Share 1935	Earned per Share Est. 1936	Current Price	Divs. Dec'd This Year	COMMENTS
Devoe & Raynolds "A"	Paints	2.88b	3.50b	55	2.00	Earnings for the present fiscal year will be so much ahead of last that the company appears to be a candidate for a substantial extra. Company has been particularly successful with its new "two coat" house paint.
Flintkote	Asphalt & asbestos roofings	1.96	2.00	36	0.75	Volume is up greatly, but the profit margin has not been as satisfactory as it might so far this year. The outlook, however, for the company's diversified line of construction and road-building materials seems to be more than ordinarily bright.
General Electric	Electrical equipment of all kinds	0.97	1.30	49	0.95	Earnings in September quarter 34 cents a share, compared with 20 cents in 1935. Possibility of labor trouble should be obviated by plan under which wages will fluctuate in accordance with the cost of living.
Holland Furnace	Hot air furnaces, air-conditioning	1.50d	ne	40	....	Company's business is strongly seasonal, with the heaviest sales being made in the fall and early winter months. As we are now in the midst of the selling season, no concrete figures showing results are available, but the company undoubtedly is doing considerably better than was the case last year.
International Cement	Cement	1.64	3.50	58	1.25	Although the regular quarterly dividend was raised recently from 37½ cents a share to 50 cents, the present outlook is such that an extra might well be paid before the year end.
Johns-Manville	Asbestos products of all kinds	2.19	4.00	120	2.50	Owing to the increased activity in construction of all kinds, sales volume has expanded greatly and as the price unsettlement which developed towards the end of last year and continued into this has shown improvement, earnings this year should be not far from double those reported for 1935. The 50-cent extra declared in August may be repeated.
Kelvinator	Refrigerators, washing machines, etc	1.05e	1.75e	22	0.70	Strongly entrenched in the refrigerator field, company has branched out into heating equipment, washing machines, ironers, ranges and air conditioning apparatus. Although competition is keen in these new lines, diversification unquestionably will be of benefit in the long run.
Lehigh Portland Cement	Cement	0.02	ne	39	1.00	Dividends were only initiated in August after a five year lapse; yet, early this month an extra of 50 cents was declared in addition to the regular quarterly distribution of 25 cents.
Libbey-Owens-Ford	Flat & spun glass, glass tile	3.26	4.25	69	2.25	Recently signed a new contract with General Motors to supply all the latter's glass requirements for the next five years. This, coupled with the effects of the expected upturn in building, should result in the maintenance of good earning power. Substantial new construction and rehabilitation of plant has been undertaken.
Masonite	Insulating board	1.68	3.00	44	1.75	Common stock recently split two-for-one and the new stock placed upon an annual dividend basis of $2 a share. The outlook for the company's business is a bright one.
Minn-Honneywell Regulator	Temperature control devices	2.67	4.00	96	1.50*	Company is now in the middle of its best season. The upturn in residential construction with a heavy emphasis on oil and gas burners and air-conditioning, coupled with the modernization of old heating equipment, are reasons enough for an optimistic attitude.
National Gypsum "A"	Wall board, metal lath, etc	....	ne	50	....	Expected to make some distribution on the "A" stock before long, expanding fast and as a speculation in the building field has much to commend it.
National Lead	Pigments	1.07	1.30	28	0.62½	Recently paid 12½ cents extra in addition to the regular quarterly payment of the same amount. Anticipated earnings would appear to justify further extras before the year end.
Otis Elevator	Elevators, escalators	0.36	0.90	29	0.60	As the construction of large commercial and office buildings is lagging behind other divisions of the industry, Otis may recover somewhat slower than other companies affiliated with building.
Owens-Illinois Glass	Glass block, insulation	6.57	7.50	149	6.00	The glass container is, of course, the mainstay of this company's business, but there seem to be almost sensational possibilities in its newly introduced glass brick and glass insulation.
Paraffine Co	Roofing, linoleum, paint	3.10a	4.56a	80	1.75	Company's diversified line appears to be in an ideal position to take advantage of an upturn in construction, especially residential construction. Dividends declared in August comprised an extra of 25 cents a share in addition to the regular quarterly distribution of 50 cents.
Penn-Dixie Cement	Cement	def	def	7	....	Although recent losses have been smaller and the prospect for the cement industry is much improved, the outlook for the common stock is obscured by the almost $50 a share accumulated dividends on the preferred.
Pittsburgh Plate Glass	Flat glass, paints	5.32	ne	130	4.00	All the company's major lines are known to have done even better this year than last, although, lacking interim statements, it is impossible to hazard an opinion as to final results.
Reynolds Metals	Insulating metals, lath, joists	1.29	1.60	27	0.75	Originally manufacturing foil, much of which went to cigarette makers, company has extended its use to building as an insulator and from this further steps have been taken into the building field with lath, joists, aluminum powders for paint and a large investment in Richmond radiator.
Ruberoid	Asphalt & asbestos roofings	3.82	3.60	82	0.75	As a result of adverse competitive conditions, larger volume of business in the first six months resulted in somewhat lower profits. As building expansion gets further underway, however, undoubtedly profit margins will be fully restored.
Servel	Electric, gas & kerosene refrigerators	1.16c	2.50c	29	0.42½	Estimates of current earning power would indicate a considerably higher dividend rate than is being paid currently.
Sherwin-Williams	Paint	6.18f	8.00f	131	3.00	As the largest manufacturer of paints in the world, company is in a particularly good position to benefit from an upturn in construction and the making-up of the deferred maintenance of the depression years.
Square D "B"	Switches, fuse boxes, etc	2.06	3.00	37	0.25†	Quarterly dividend recently raised to 25 cents from the 12½ cents declared three months previously. Stock was split three-for-one earlier in the year.
Timken-Detroit Axle	Oil burners, air-conditioning	1.02	1.75	23	0.50	Heavy-duty axles for buses and trucks are the company's main line, but business of the company's Timken Silent Automatic Division is such that further improvement in building undoubtedly will result in its contributing materially to earning power.
U. S. Gypsum	Wall board, plaster, metal lath	2.47	3.25	103	1.50	An exceptionally strong and well-entrenched company in which the investor can obtain a stake in building undiluted by other activities.
Westinghouse Electric	Electrical equipment of all kinds	4.50	8.00	150	2.50	Company is doing very well and will be faced shortly with the problem of paying more to stockholders or paying a substantial sum to the Government under the undistributed profits tax. Chances favor the company electing to pay larger dividends.
Yale & Towne	Locks, building hardware	1.01	1.75	45	0.60	Old-established organization whose trade-name "Yale" on builders' hardware is known throughout the country. More than ordinarily strong financial position would indicate ability to pay dividends close to earnings.

a—Actual earnings to June 30. b—Year to Nov. 30. c—Year to Oct. 31. d—Year to March 31, 1936. e—Year to Sept. 30.
f—Year to Aug. 31. ne—No estimate possible. *—Annual rate plus extras. †—Last quarterly dividend.

Broader Markets Indicate Larger Earnings

Prospect of Larger Volume at Higher Prices Favors Well-Managed Conservative Company

BY PHILLIP DOBBS

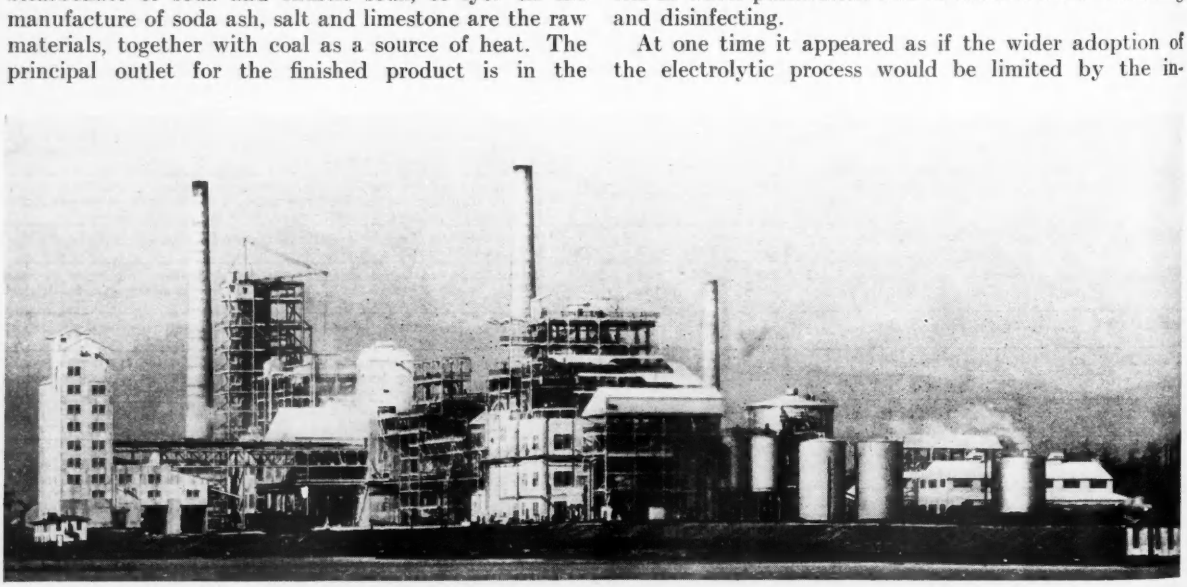
THE investor has long regarded the chemical industry as abounding with glamor. He reads about remarkable chemical discoveries: he sees for himself in his everyday life new and strange substances: and the record tells him that the industry is one whose members are resistant to depression and recover among the fastest when the business tide commences to run the other way. This is the spectacular side of the chemical industry and, consequently, the better known. There is, however, another and quieter side which, if it fails to introduce a cellophane or a bakelite every other day, nevertheless has a long, long record of profitable operations. Prominent among the chemical quieter sect are the makers of alkalis.

"Alkali," in popular parlance, refers to substances having the power to neutralize acids. Among the most important industrially of these substances are soda ash, bicarbonate of soda and caustic soda, or lye. In the manufacture of soda ash, salt and limestone are the raw materials, together with coal as a source of heat. The principal outlet for the finished product is in the manufacture of glass. This contains between ten and twenty per cent of soda ash by weight. Huge quantities of soda ash are used in the manufacture of caustic soda, for which makers of soap and rayon are the best customers. The textile, paper and general chemical industries also are big buyers of soda ash and caustic soda.

Where electric power is cheap it is possible to electrolyze a solution of common salt (sodium chloride), separating it into its component parts, and producing caustic soda and chlorine with hydrogen gas as a by-product. The chlorine gas may be liquefied under pressure or converted into high test hypochlorite, while the hydrogen is a raw material for the production of another valuable commercial alkali, ammonia.

The chlorine products go to the paper and textile industries; large quantities are consumed by municipalities in water-purification and in laundries for bleaching and disinfecting.

At one time it appeared as if the wider adoption of the electrolytic process would be limited by the in-



The New Mathieson Plant at Lake Charles, Louisiana

ability of the market to absorb increasing quantities of chlorine products. Demand for the latter, however, has expanded hugely and the caustic soda produced by electrolysis is now an unexpectedly large proportion of the whole.

One of the largest, if not the largest, producer of alkalis in this country is the Mathieson Alkali Works (Inc.). The company was incorporated in Virginia some forty-four years ago. It has three principal plants, the original at Saltville in Virginia, one at Niagara Falls in New York and one at Lake Charles, Louisiana. In Virginia extensive acreage is owned on which there are deposits of salt sufficient for operations over scores of years. The necessary limestone comes either from land that is owned, or from land on which Mathieson has long-term mineral rights. Gypsum products are produced at Saltville in addition to the soda ash, caustic soda, bicarbonate of soda and other chemicals that one would expect from the nature of the company's business.

The Louisiana plant is a development of the comparatively recent past. In 1933 the company bought some 1,650 acres of land at Lake Charles on which it erected a plant not dissimilar from the one at Saltville. The former, however, while having access to the company's own salt lands, will use oyster shells instead of limestone. The building of the plant was financed by an issue of rights to stockholders under which they were privileged to subscribe to some two hundred thousand shares of stock at thirty dollars a share. Being on tidewater and also having access to the waters of the country's largest river, the new plant is in a position to benefit from cheap water transportation in almost any direction.

Raw Material Producer

The plant at Niagara Falls is on leased land, the lease being terminable in the event that the company is prevented or ceases to take power from the Niagara Falls Power Co. This plant in addition to producing caustic soda is among the world's largest producers of liquid chlorine. Salt for this plant is bought, although a large potential source of supply is owned on 325 acres of land at Geneseo, New York.

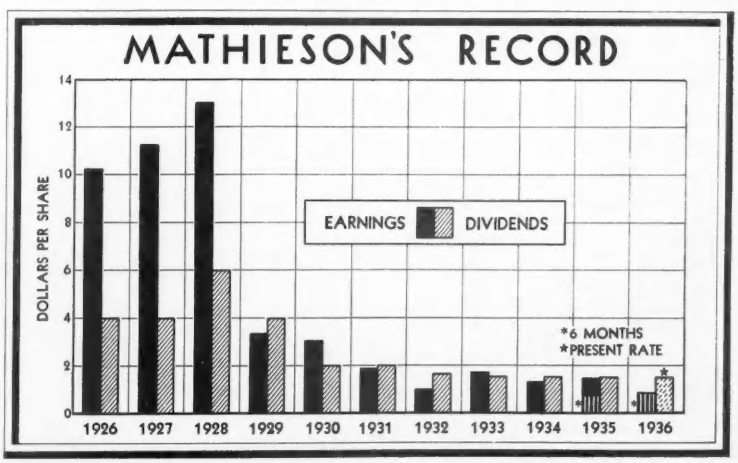
From this brief sketch it will be seen that the most striking feature of the business of the Mathieson Alkali Works (Inc.) is its dependence upon other industry. It is a heavy chemical company—a company supplying raw materials to other businesses—in every sense of the word. Some companies find it possible to build up consumer goodwill among the general public by national advertising and as retail prices never fluctuate as drastically as wholesale prices, such tactics tend to even out earnings over the business cycle. Other companies which are constantly producing new products often find during a period of slackening business that the decline in their old line output is being tempered by the initial spurt in the new. Such shelter, however, is available to Mathieson only to a very limited degree yet, even under such circumstances, that the company never lost money even in the dark days of 1932 and never missed a dividend on the common stock in the past ten years is the more remarkable.

Naturally, the company's earnings have fluctuated. Net income from a peak of $2,300,000 in 1929 fell to $730,000 in 1932. But when one reflects upon the depths which the glass, paper and other consuming industries were plumbing in the latter year, the only peculiar feature of the decline in earnings is that it was not more drastic. The explanation is that some of Mathieson's customers continued to maintain relatively high volume despite the depression. Particularly, this applies to the rayon, petroleum and soap manufacturers.

Earnings Improving

Last year, Mathieson's net income of $1,359,776 was not far from double that reported for 1932, being equivalent, after dividends on the preferred stock, to $1.44 a share on the outstanding common stock. While this was slightly under the present regular dividend of $1.50 a share, the difference was by no means serious: besides, from present indications the company will enjoy a fair surplus over dividend payments this year. For the first six months of 1936, net income of $717,882 after charges and Federal taxes, including the tax on undistributed profits, was equivalent after preferred dividends to $0.76 a share on the common. In the corresponding previous period the company reported earnings of $0.68 a share.

From the corporate standpoint, there is nothing complicated about Mathieson Alkali. While the company has some seven or eight subsidiaries, they are small and of comparatively little importance to the operations of the parent company. The subsidiaries include such things as the telephone and the water works in the company's own town in Virginia. Today, simplicity is the exception rather than the rule in corporate structures and it is always a relief to the investor to encounter the former state of affairs. At the end of last year, the capitalization of the Mathieson Alkali Works (Inc.) consisted of 830,663 shares of common stock of no par value, senior to which (*Please turn to page 56*)



Cotton Must Go Up

Surplus Stocks Have Been Greatly Reduced, Our Crop Is Short and Consumption Is Rising

BY C. S. BURTON

The world has a most amazing appetite for cotton. Apparently, the best trade authorities and the analysts of market movements seem never able to foretell when the consumers of the fiber are apt to start a buying movement that cleans up cotton supplies as though the goods were going into a bottomless pit. The effect of the short crop this season, plus record mill activity, has yet to make itself felt in price, but it is fairly safe to say that the present position in cotton is such that it can move only one way—marketwise—up, especially in the face of a sharp reduction in the carryover of American cotton and in the world carryover.

Current movements amply justify the contention that use has been overmuch restricted and needs at home and abroad are not only for current use but for an unknown volume of replacements.

The situation is paradoxical. The world supply of American cotton,—crop and carryover of 18,221,000 bales,—is smaller than in any year since 1924-25. Domestic cotton mill activity is very high. European mill activity is better than average. There has been most substantial improvement in Lancashire. Germany cannot buy cotton she needs almost imperatively because her exports afford her insufficient foreign exchange credits to pay therefor. Italy is facing a similar situation. Il Duce hopes at some early date to bring the cotton Italy needs from Ethiopia, but in the meantime, supplies must be had at some price, some sacrifice price if that cannot be avoided; still, on the whole, the world price for cotton appears stolid.

Merchants, our own merchants, having taken to a hand-to-mouth general buying policy, based on quick turnover and minimum inventories, find that there is another side to the argument when we have a crop, expected to be short, but suddenly reduced drastically from estimates already low enough for comfort.

To go "looking backward" today at the cotton that was plowed under, it is too plain that, as a bit out of Alice in Wonderland, it goes along with the wheat we are currently importing, the bacon for which we are paying fifty cents per pound, and the little pigs that never arrived at the—shall we say?—Baconian period.

Domestic mill consumption during the twelve months ending July 31 last, totaled 6,348,423 bales, an increase of approximately one million bales over the previous year, where the figure was 5,360,867 bales; up over last year by about 19 per cent. That this consumption trend continues upward is evidenced by the August figures of 574,289 bales taken as compared with 408,325 bales for the same month last year, up 40 per cent.

The spot cotton markets in the South have awakened to something like old time activity. There is an unusual amount of discrimination as to grade and staple, due, of course, to the abnormal crop conditions during the growing season.

Marketwise, such discussions come down to the matter of "basis," a factor peculiar to the cotton market, and on which are figured the differences in staple (length of fiber) and quality of fiber. The manner in which cotton prices are figured on "basis" is far too intricate to be even outlined here. So far as the trader in the cotton market is concerned, he is inter-



Nesmith

Loading Cotton at Mobile, Alabama

ested only in so far as a high or low "basis" may affect the movement of spot cotton in the purchases of domestic mills or in the export trade.

The improvement in Lancashire may be measured roughly by our increase in exports from 738,154 bales for the crop year ending July 31, 1935, to 1,409,547 — almost double for the last crop year. The current taking by Liverpool has been exceeded only in two years, 1932-33 and 1928-29 since 1927-28. During the same period of eight years, Germany was our heaviest foreign buyer, average purchases being 1,570,000 bales per annum. The abnormal situation arising out of hypertrophied nationalism and the asphyxiation of foreign trade is evidenced by the shrinkage of our shipments to Bremen and Hamburg to 381,000 bales in 1934-35. For the current year (crop year 1935-36) exports to Germany were 765,485 bales, against 341,850 bales for the previous crop year.

World Production of Commercial Cotton

(AMERICAN RUNNING BALES, FOREIGN EQUIVALENT 478-POUND BALES)

	1931-32	1932-33	1933-34	1934-35	1935-36	1936-37
United States	16,877,000	12,961,000	12,712,000	9,576,000	10,495,000	.....
Brazil	505,000	378,000	946,000	1,212,000	1,530,000	812,000*
China	1,106,000	1,871,000	2,051,000	2,292,000	2,259,000	3,400,000
Egypt	1,309,000	1,038,000	1,739,000	1,523,000	1,758,000	1,862,000
India	3,334,000	4,109,000	4,828,000	4,161,000	5,233,000	6,758,000
Russia	1,843,000	1,816,000	1,887,000	1,738,000	2,250,000	3,000,000†
Other Countries	1,490,000	1,440,000	1,948,000	2,371,000	2,737,000	.....
Total Foreign Countries	9,587,000	10,652,000	13,399,000	13,297,000	15,767,000	.....
Total World	26,464,000	23,613,000	26,111,000	22,873,000	26,262,000	.....

*—Northern Brazil. †—Plus.

NOTE:—1936-37 figures are mostly trade estimates based on acreages and past averages.

As is a matter for constant comment, Japan's growing textile industry presents the troublesome problem of an important consumer of raw material, coming back as a gruelling competitor in the finished goods market. For the same eight year period during which Germany was our largest foreign buyer, Japan ranked second with average annual takings of 1,491,000 bales; Lancashire third with yearly purchases averaging 1,312,000 bales. For the twelve months ended July, '35 Japan took 1,537,000 bales which was more by 37 per cent than both the United Kingdom and Germany together.

There was something of a shock, when the Crop Reporting Board gave out its figure 11,121,000 bales for the crop now being picked; this figure was down 1,360,000 bales from the estimate of a month earlier. The almost unbelievable heat unrelieved by any normal rainfall or break in the torridity, was responsible for the deterioration. There is still no little speculation as to the possible improvement due to late rains. Cotton is a native of the desert, it holds on through heat and drought and perks up most amazingly when rainfall comes. The situation in the cotton field is mixed, the bolls opened prematurely in the heat; the rains, making some addition to late crop, also damage and lower the grade of the open bolls in the field. This condition has led to very heavy, early ginning of cotton, 3,707,000 bales against 2,316,000 to September 16 last year.

For the month of August the price of spot cotton, middling, averaged 12.07 cents per pound. The early ginning marks the eagerness of farmers to get the bales to market, something which spinners seem to ignore, as they permit the desirable grades of cotton to be taken out of the open market. Evidently the spinners feel they have better judgment as to future prices than have the merchants. There has been no discussion of any cotton loan for this season's crop and from the rush to market one concludes that planters are at least content to take the current price without any delay.

Perhaps the planter has some general instinct as to world conditions and some realization of the manner in which quotas, tariff barriers, exchange restrictions and barter agreements hamper the normal flow of trade in a commodity used, consumed the wide-world over. The other side of the picture is the persistence of world trade—business—in the face of artificial obstacles.

The carry over in American cotton is reduced at the same time that consumption establishes a new high record. The world carryover on August 1 is estimated at 12,500,000 bales, to be compared with 13,624,000 bales a year earlier; with 16,100,000 in 1934, 16,000,000 in 1933 and the burdensome peak load of 17,000,000 bales in 1932. Normal world carryover is between ten and eleven million bales.

The carryover of American cotton is figured in preliminary estimate at 7,106,000 bales, of which 3,200,000 is in government hands and probably not available under 13 cents a pound or better. This year's carryover may be compared with 9,041,000 bales last year; 10,701,000 bales in 1934; 11,809,000 in 1933 and the peak of 13,263,000 in 1932. It is to be considered that in view of the increased production of foreign cottons, we must look for a lower carryover of the American product at least until the time comes when (as and if) we shall have won back for American cotton its proper predominant place in the world market.

Such a victory need not seem to be too much of a mirage. In the first place, there is quality and uniformity, advantages which cannot be taken from the fiber of our cotton fields.

Of course, when we embarked upon our fantastic policy of plowing up cotton, the procedure was so unheard of theretofore, that every country on the globe with an acre where the plant could make a crop, saw opportunity sprouting forthwith from the furrow directly behind the mule and the plow. That the onslaught has hardly justified the panicky utterances which were heard serves not at all to justify the endeavor we made to throw overboard our dominance in the world cotton market, while we went on to disrupt conditions in the South and make day laborers out of tenants and create unemployment. The victims of the scarcity program were the tenants, the farm laborers, the unskilled and semi-skilled workers, who process handle and market the crop. If we can and do get our market back, we will be more fortunate than we deserve to be.

It is too early to make satisfactory estimates of foreign cottons for the current crop year. Last year's foreign cottons totaled 15,757,000 (*Please turn to page* 61)

For Profit and Income

Copper

With the price of copper abroad ascending to the ten-cents-a-pound level, rumors have been revived that the domestic quotation would soon be advanced from the prevailing level of 9¾ cents. A healthy demand both at home and for export are said to warrant an increase. On the other hand, a number of big producers are convinced that the best way to take advantage of the present strong copper market is to increase their production until it more nearly approaches capacity. In their opinion, this is preferable to raising prices, which naturally would tend to curtail demand, when their output is still so far under what it might be. One is inclined to believe that an argument as logical as this will prevail. If it does, holders of securities in copper companies by no means should be disappointed, for a larger output at present prices may well mean more, than a smaller output at higher prices.

* * *

Douglas Aircraft broke sharply on the report that earnings for the nine months to August 31 of this year amounted to only $277,644, compared with $1,082,746 for the corresponding previous period. Apparently, holders of the stock had not allowed sufficiently for the expense and the interruption to manufacturing schedules attendant upon the company moving into its enlarged plant. It is evident that a large volume of orders does not always mean big profits; however, in the case of Douglas a better showing is expected as soon as the present phase of expansion becomes more consolidated.

* * *

Third-Quarter Earnings

It is generally conceded that the usual summer slump failed to develop its customary severity this year. The correctness of such a view, however, is only proved by third quarter statements and these are only now being published in appreciable quantities. The majority of those available so far show that the summer was, indeed, a time of exceptional business activity. For the quarter ending in September General Electric reported earnings equivalent to 34 cents a share of common stock, compared with 20 cents for the corresponding period of last year; Eaton Manufacturing reported 72 cents a share compared with 32 cents; Lehman Corp., $3.88 against $1.55; Harbison-Walker's official estimate is 75 cents against 30 cents. Western Union, whose activities are a very fair indication of the state of business generally, earned the equivalent of $4.17 a share in the first eight months of this year, compared with $2.69 in the first eight months of 1935. The increased activity in communications was confirmed by the consolidated report of the American Telephone & Telegraph System which showed earnings of $2.31 a share for the August quarter, compared with $1.56 a year ago. In the third quarter of 1936. United Fruit earned $3,750,000 before Federal taxes, or nearly $1,000,000 more than was earned before taxes last year. In view of the excellent outlook for the balance of the year and, taking into consideration that the tax on undistributed earnings is still on the books, there are valid reasons for believing that the dividends to be distributed before the beginning of 1937 will surprise even those that have been most optimistic.

* * *

Of good news to the stockholders of Procter & Gamble was the president's statement at the annual meeting the other day. Mr. R. R. Deupree said: "Business was good and it seems quite certain that it will be reasonably good in the second quarter (fourth quarter by the calendar year.)"

* * *

Reinstates Dividend at Full Rate

On October 15 the Mohawk Hudson Power Corp., by the declaration of a dividend of $1.75 a share, restored the dividend on its 7% (first) preferred to the full nominal rate. While there are still dividend arrears on the issue amounting to $5.25 a share, the restoration of the full rate on the preferred does serve to call attention to the progress being made. For the twelve months to June 30, last, the company earned the equivalent of $9.34 a share on the preferred, compared with $3.75 in the corresponding previous period. In the June quarter, earnings were equal to $2.65 a share against $1.88 a share in the June quarter, 1935. As the output of Niagara

Hudson Power, of which Mohawk Hudson is a part, has participated fully in the country-wide increase, it may be assumed that third quarter earnings figures will show further improvement. It cannot be contended, of course, that the public utility systems are out of the woods yet politically, despite the President's calling a power conference apparently with a view to a truce. Nevertheless, the public utilities, if not the political factors, have all the economic factors on their side and, in view of the further improvement in prospect, the preferred of Mohawk Hudson Power is not unattractive as a high-yield speculation. The current price is about $100 a share. Slightly more speculative is the second preferred of the same company selling around $85 a share.

* * *

The details necessary to the administration of the Social Security Act are said by its opponents to be insurmountable. The attempt is to be made, however, and as it's an ill wind that blows no good, it might be noted that the Board has agreed to pay International Business Machines a rental of $438,000 for recording equipment for the fiscal year which commenced July 1, last.

* * *

A £2,500,000 issue of Argentine 3½s have been underwritten in London. A multitude of people in this country own Argentine 6s and 5½s, but their time evidently is growing short; taking into consideration the high credit standing of the Argentine, they will be fortunate to receive the opportunity to convert their present 6s and 5½s into bonds bearing a coupon as high as 4½%.

* * *

A Wealth of Good Railroad News

Carloadings are at the peak for the year and it seems as if railroad gross revenues for October will be higher than in any month of the past five years. The Association of American Railroads shows in a preliminary report for September that the operating revenues of 89 Class I roads, representing more than three-quarters of total operating revenues, were 16.4% above those of the same month last year. Recent specific items of interest to the owner of railroad securities include the following: Erie earned the equivalent of $1.20 a share on the 4% first preferred in the first eight months of the year compared with a net loss of $1,842,000 in the corresponding previous period. The President of Chicago & Northwestern said that he believed his road attained black figures in September for the first time this year. Great Northern in the first eight months of the year earned 31 cents a share against a loss of $1,708,000 last year, while Atlantic Coast Line in the first eight months of 1936 earned the equivalent of $1.38 a share of common compared with a loss of well over $1,000,000 a year ago.

In the meantime, all this railroad prosperity—or rather relative prosperity—is swelling the orders for railroad equipment and materials of all kinds. The favorable prospect enjoyed by the railroad equipment companies has been stressed before and almost every day reports of orders placed for freight cars, locomotives, air-conditioned coaches and the like confirm its correctness.

* * *

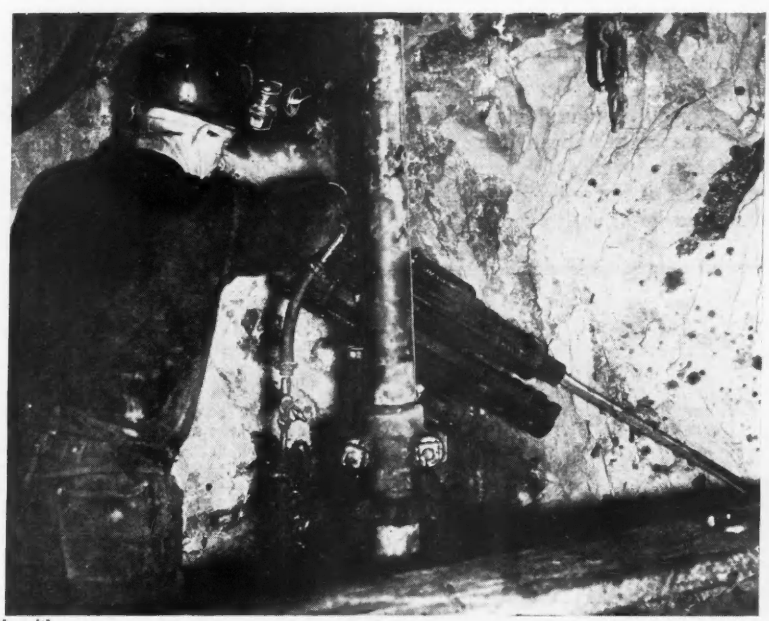
An order, valued at more than $1,500,000, has been placed by Gulf Oil with Jones & Laughlin and National Tube, U. S. Steel subsidiary, for 30,000 tons of steel pipe line. This is among the largest orders placed for pipe in the past five or six years and well merits inclusion in the evidence that the heavy industries are getting underway at last.

* * *

While General Foods has already declared in full its regular annual dividend of $1.80 a share, the Chairman anticipates additional action before the year end. Here, we seem to have an illustration of the actual working of the tax on undistributed corporate profits. It should be remembered, however, that while such a tax tends to increase dividends faster during a time of rising earning power, reductions will come sooner and be more abrupt during a time of waning business activity.

* * *

Rather unaccountably, the fertilizer stocks have been strong and active recently. It might have been thought that bulls on this industry would have awaited a time nearer to the spring selling season. However, it seems that sales currently, while small in total, are considerably above 1935 and that this is being taken as forecasting a much increased demand after the turn of the year.



Nesmith

A copper miner in action. Strong demand for the metal both at home and abroad will put more such men to work as production schedules are revised upwards

Understanding Today's Market Fluctuations

— Recent Price Movements
— Leading Issues Interpreted

BY FREDERICK K. DODGE

One of the most popular of the graphs used as an aid to speculation is the chart showing the daily movements of the Dow-Jones industrial and railroad averages. Several books have been written describing in great detail the so-called Dow theory of stock price movements, and a great many traders inclined to favor the use of the more mechanical methods of operation, give great weight to the "signals" given by the relative movements of the two Dow-Jones series, the thirty industrials and twenty rails. Of particular importance to Dow theory students is whether or not the averages confirm each other in their secondary movements as distinguished from their primary direction. By confirmation is meant penetration of either resistance or support levels by both the averages resulting in new high levels or new low levels for the primary swing. Some of the Dow theory adherents state that penetration in the amount of more than a point is required before confirmation is given; others that fractional penetration is equally significant. Be that as it may, if so-called confirmation is had, it is concluded that the primary trend is made more certain, and many commitments in the markets are made after such a development is displayed on the graph. Thus, whether one believes the Dow theory or not, it is undoubtedly a general market factor. This has recently been demonstrated.

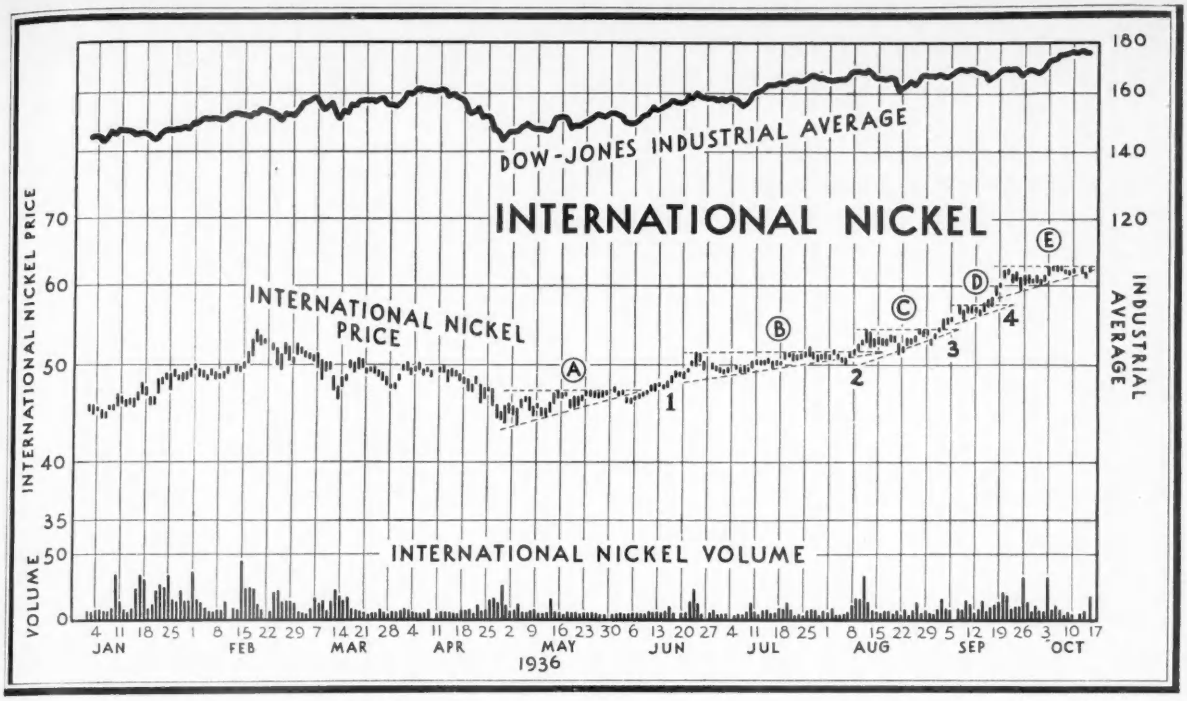
After fluctuating for several weeks mostly in the upper half of the price ranges established by the August highs and lows, both averages broke out on the up-side on October 2 and, following this brilliant performance, have risen to new high levels since 1931 on expanding volumes of trading. Those who place faith in the Dow theory were tremendously encouraged to see the rail average push decisively through the 1933 high of 56.63 and immediately assumed that the bull trend had been reaffirmed. Here was the confirmation, according to the Dow theorists, that the upward primary trend of stock prices was to continue for some time.

To all other observers of market action, this breaking out on the up-side in so decisive a fashion, after such a protracted interval of cautious and indecisive markets, was a favorable development indeed, and particularly so since turnover increased substantially at the same time. This technical action rather clearly indicated that the preceding "line" of restricted swings constituted better buying than selling, in other words, a period of *accumulation* rather than *distribution*. Apparently the market had been awaiting a clearer view of the foreign monetary situation and, when the French money measures were actually passed, responded with a sharp upswing in prices. A firm market was transformed into a buoyant one as the financial community became hopeful of good results to flow from the European devaluations. It was at once apparent that apprehension over the foreign monetary situation had been almost wholly relieved, and attention turned toward the domestic scene where an excellent showing was being made in the field of industry and trade. Despite the uncertainties always

Keeping Up with the Active Stocks

	Shares Outstanding	Dividend	Recent Price	Approx. Yield	Annual Earnings 1934	Annual Earnings 1935	Interim Earnings 1935	Interim Earnings 1936	Price Range 1935 High	Price Range 1935 Low	Price Range 1936 High	Price Range 1936 Low
Commonwealth & So	33,673,328	....	4	....	d0.05	0.01	d0.03jl12	0.06jl12	3	¾	5½	2¼
Socony-Vacuum	31,151,075	0.45(1)	16¼	....	0.77	0.72	....	....	15¾	10⅝	17	12½
U. S. Steel	8,703,252	....	79¼	....	d5.39	d2.77	d1.79je6	0.42je6	50⅝	27½	79¼	46⅜
Yellow Truck B	1,300,000	....	19⅜	....	d0.92	d0.26	d0.16je6	0.79je6	9¼	2⅝	22¾	8¾
Canadian Pacific	13,400,000	....	13¼	....	d0.21	d0.20	....	....	13¾	8⅝	16	10⅞
General Motors	42,831,000	3.00(1)	73	4.1	1.99	3.69	1.85je6	3.17je6	59⅜	26⅝	73⅛	53⅞
United Corp	14,529,324	....	7½	....	0.17	0.11	0.04je6	0.06je6	7¾	1½	9¼	5⅜
Studebaker	2,155,660	....	15¾	....	....	d0.92de9	....	0.47je6	10¾	2¼	15⅞	9⅛
Gen. Gas & Elec. A	4,911,700	....	3⅛	....	d0.85	d0.82	....	....	1½	¼	4⅜	⅞
Republic Steel	4,045,767	....	26	....	d3.43	0.49	0.47je6	0.44je6	20¾	9	26¾	16⅞
U. S. Rubber	1,464,371	....	37	....	d3.93	d2.03	d1.33je6	d0.28je6	17¼	9⅛	38⅞	16⅜
Chrysler	4,314,391	6.50(1)	130¼	5.0	2.19	8.07	4.31je6	6.83je6	93⅛	31	130⅝	85½

(1) Paid or payable this year. d—Deficit. de9—9 months ended Dec. 31. je6—6 months ended June 30. jl12—12 months ended July 31.



present during a Presidential election year, the market turned decidedly strong, group after group and stock after stock were taken in hand and given an upward whirl. Rotational strength became an outstanding characteristic of the market, usually a sign that an important secondary or intermediate movement is in its early stages.

Low-Priced Issues Active

A substantial number of the most active stocks in the recent past have been the very low priced issues, particularly a few in the public utility group, such as Commonwealth & Southern, United Corp., General Gas & Electric A, and some of the oils, as well as several issues subject to special influences. Interest in the utilities, of course, has been generated by the negotiations going forward in Washington apparently looking toward some sort of an agreement between the Government and private industry. Many speculators feel that there is a chance that a compromise may finally result that will change the utility picture somewhat, particularly in the areas subject to competition from the Administration's huge power projects. On the other hand, it was said that the calling of the conference has a political significance only. This difference of opinion, as in all cases, is what makes the market, and the technical indications given by the actions of these particular issues as we go along will be especially useful in the attempt to forecast what, if anything, will ultimately emerge from the Washington interchange of industry and Administration views.

The oil stocks as a group have recently become stronger on evidences that the statistical position of the industry was not deteriorating, as so many feared. The past month or so has been a time of test for the petroleum industry for the reason that the demand for gasoline drops rather rapidly after Labor Day. In such an interval, if a weak situation statistically in the industry exists, it is likely to be revealed by receding crude oil prices or the out-cropping of price wars in the retail gasoline field. Since such developments did not occur to any extent a gradual change in market sentiment toward the oils has been reflected in appreciation in prices for nearly all representative issues. Technically, this group was behind the market. Throughout the long summer months they lagged the general list and, of course, it was reasonable to assume that they had established strong positions marketwise, and that any reversal of attitude on the part of traders was likely to result in pronounced upward moves of the short-term and intermediate variety. As usual, in this type of market, with the public gradually becoming more interested as prices rise, the low-priced issues have provided the greatest percentage gains. Socony-Vacuum, Houston Oil, Shell Union, Pure Oil and Ohio Oil have provided substantial appreciation in recent markets, as well as several of the very low priced oil stocks listed on the New York Curb.

The Motor Group

In the automotive division, Chrysler, General Motors, Studebaker and Yellow Truck have shown outstanding leadership. In the case of Yellow Truck, an interval of accumulation was clearly indicated on its graph of market action in late September and early October. On October 7 the price broke out on the up-side with a gap accompanied by substantially higher turnover, and when it was announced the following day that the company had received the largest order ($6,800,000) ever given for motor coach equipment, the stock rose swiftly to new high prices for many years. This news was succeeded by (*Please turn to page* 61)

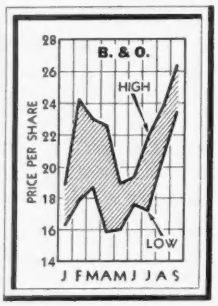
Common Stocks for Current Purchase

Selected Issues in a Favorable Position for Price Enhancement

By THE MAGAZINE OF WALL STREET STAFF

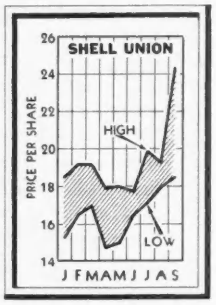
Baltimore & Ohio R.R.

In the short period of about eighteen months, B. & O., has emerged from a railroad whose financial solvency appeared to hang by a mere thread to one which may be credited with a full measure of recovery opportunities. In 1934, B. & O. earned only 88% of fixed charges and in 1935 the coverage was only 90%. This year, however, the probabilities are that the fixed charges will be covered in full with a balance of about $3 a share for the preferred stock. In fact, the B. & O. may be cited as an excellent example in support of the contention that the single requirement to restore the financial security of the majority of carriers was a moderate improvement in business, particularly the heavier industries.



The lines of the road traverse one of the most important industrial territories in the nation, tapping the bituminous coal regions in Pennsylvania, Ohio, Maryland, West Virginia, Indiana and Illinois. This territory also embraces many vital manufacturing activities, and as a consequence a substantial portion of freight revenues is derived from the transportation of coal, iron and steel products and other manufactures.

Operating revenues have been in the ascendancy since 1932 and by the end of 1935, the total of $141,873,643 was about $16,000,000 higher than for 1932. In the first eight months of the current year, moreover, the road showed a net loss, after fixed charges, of only $860,000 as compared with a loss of $3,440,000 in the same months a year ago. The probabilities are that September gains enabled the road to entirely erase the eight months' loss. The last three months of the year, reflecting the seasonal movement of coal, normally contributes nearly 25% of total freight revenues, with October showing the peak. It is likely, therefore, that the current showing will be the best since 1931, when earnings were equal to 57 cents a share for the common. Income may be further bolstered in the final months by a large dividend from the road's investment in Cincinnati, New Orleans and Texas Pacific, which is expected to earn around $30 a share. Last June the latter road paid $7.50. B. & O. shares control with the Southern Railway.



Funded debt of the road is heavy, the total of $618,477,652 accounting for 68% of the total capitalization. While this is a condition which is burdensome during periods of restricted traffic, it is also one which results in considerable leverage for the common stock when earnings are pointing upward. The common is outstanding in the amount of 2,562,953 shares, preceded by 588,632 shares of 4% non-cumulative preferred stock. In addition, the road is indebted to the R F C to the extent of $56,610,400, the bulk of which, however, has been extended to 1939. Although financial position is somewhat restricted, cash appears ample for immediate needs and with the benefit of further improvement, the road might well be in a position to refund R F C loans by a long-term bond issue.

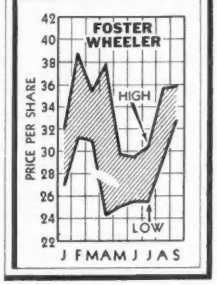
The most apparent uncertainty in the near-term prospect is the expiration of surcharges on January 1, 1937. It has been estimated that collection of surcharges this year will contribute between $5,000,000 and $6,000,000 to B. & O.'s revenues and it will thus be seen that their continuance is a vital factor. In lieu of surcharges, the railroads are petitioning the I C C for a permanent increase in rates for various freight classifications. The outcome is problematical but in the face of increased costs being shouldered by the carriers, there is a reasonable chance that at least a part of their demands will be granted. While

frankly speculative, the shares of B. & O. may be credited with dynamic possibilities, under the potentially favorable conditions ahead.

Shell Union Oil Corp.

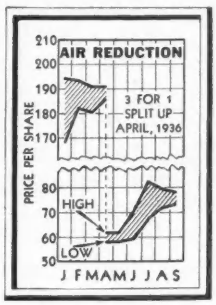
By virtue of an ambitious program of expansion involving all divisions, Shell Union Oil Corp., ranks as the third largest unit in the domestic oil industry. Not only was this program an extensive one but it was expensive and carried out at the height of the boom in the late '20's. The $200,000,000 required to carry out the company's objective required a substantial increase in funded debt and preferred stock outstanding, with the result that Shell Union faced the depression burdened with heavy fixed charges and preferred dividend requirements, for which later earnings proved inadequate.

Ill timed though the company's expansion was, nevertheless, there is no doubt that Shell Union weathered the depression in a commendable fashion. Funded debt, which amounted to $125,000,000 at the end of 1930, had, as of December 31, 1935, been reduced to $47,116,500, of 1930, had, as of December 31, bentures in the open market at profitable discounts. The resultant savings reduced the charge against earnings for interest and discount to some $2,500,000 last year, or about $4,000,000 less than in 1930. Earlier this year the company marketed a $60,000,000 issue of 3½% debentures, using the proceeds to retire the balance of 5% debentures and for additional working capital. This issue and a $3,000,000 serial note now comprise the entire funded indebtedness. Despite, the rapid retirement of funded debt, current finances have continued ample. Current assets of about $72,500,000 at the end of last year compared with current liabilities of slightly more than $31,000,000 and cash and Government securities totaled $22,419,465, an increase of more than $8,000,000 during the year.



Operations of Shell Union are completely integrated to include all phases of the oil industry, with the emphasis of pre-depression expansion placed on the retail and marketing divsions.

Operations in 1935 recorded a profit for the first time since 1929. Net of $6,812,835 was equal after allowance for dividends on the 5½% preferred stock (not paid) to 37 cents a share on the 13,070,625 shares of common stock. Last year capital expenditures of $36,000,000 were $14,000,000 more than in 1934. Profitable operations plus the expedient of transferring a special reserve of $15,000,000 to surplus account enabled the company to wipe out a balance sheet deficit and show a profit and loss surplus of $3,419,589.



Improved earnings have been consistent this year and in the first six months the company reported a profit of $6,392,016, exclusive of a profit of about $3,000,000 derived from the sale of its holdings in Flintkote stock. In the same months a year ago net was $528,735. Six months' profits this year were equal to 63 cents a share on the common after allowance for preferred dividends, comparing with $1.32 a share on 400,000 shares of preferred stock in 1935. Two dividends of $1.37½ a share have been paid on the preferred stock this year, and total accumulations in unpaid dividends on the senior shares now amount to $26.12½. Conceivably the company may evolve some plan for the elimination of these arrearages, thus paving the way for the resumption of common payments. Favored by general stability within the oil industry, Shell Union would appear to have an excellent opportunity to develop earning power fully in keeping with its size and prestige, and while the shares are not undervalued at levels around 23, they possess interesting possibilities for speculative profit in the coming months.

Foster Wheeler Corp.

Foster Wheeler Corp., designs and manufactures complete equipment for steam generating plants and petroleum refining units. While these comprise the two major divisions of the company's activities, within their scope must also be included a wide variety of machinery and supplies, as well as boilers, water cooled furnaces, pumps, pulverized fuel systems, feed water heaters, air-heaters, superheaters, economizers, evaporators, cooling towers and condensers.

The company's business is obviously of the "prince and pauper" type and attains its greatest impetus when industry is both willing and able to indulge in large scale expansion and replacements.

Although losses were still being shown as late as the first six months of this year, they have been appreciably reduced and orders booked have increased substantially. In the first half of this year, the company reported an operating profit of $96,339 as compared with a loss in the corresponding period of last year, and after deducting depreciation and taxes and allowing for nonrecurring credits of $57,921, the net loss in the first six months of the current year was less than $25,000, contrasting favorably with the loss of $151,313 in the same period a year ago. Unfilled orders as of June 30, last, totaled $6,165,860, as compared with $4,286,000 on June 30 a year ago.

It would appear, in the light of the current showing, that operations are closely approaching the "pay point" and once this objective has been attained, earnings could gain rapidly. Industrial construction and rehabilitation has already shown definite signs of revival, the aggregate amount of major projects begun since the first of the year having been estimated conservatively as upwards of half a billion dollars. This, however, is barely more than a start and would be given considerable momentum by new utility construction, the need for which is close at hand. Record-breaking consumption of electrical energy is taxing the facilities of not a few utility properties and the time

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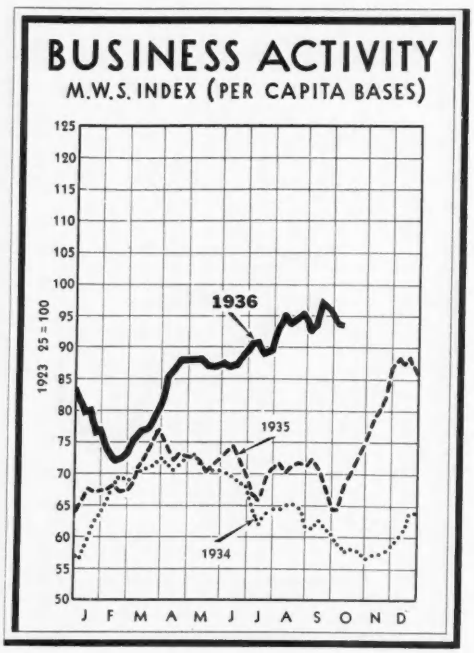
Taking the Pulse of Business

— Retail Trade Improved
— Employment Rising
— Steel Demand Sustained
— More Capital Financing

THE closing of Ford assembly lines for retooling since our last issue caused a slump in automobile production to the lowest level of the year and was largely responsible for a temporary recession in the Business Activity index to 93.6% of normal on a per capita basis. Owing chiefly to the low ebb of motor car output, electric power and the steel ingot rate have also expanded during the past fortnight at somewhat less than the normal seasonal rate. However, most of the automotive plants are now again resuming production on new models as this is written, and as the plants swing into full operation we are likely to witness a resumption of the upward trend in general business activity which should be well sustained during the fourth quarter, as may be inferred from the recently released figures on General Motors' September sales of cars to domestic consumers which disclosed an increase of 28% over the corresponding month a year ago. Another encouraging indication may be found in the number of stations gained by the Bell Telephone System in September, which was the largest for any month in the Company's history.

During the month of September, the country's physical volume of production per capita averaged 94.9% of normal. This compared with 94.1% in August, and 90.2% in July. Thus the average per capita Business Activity for the third quarter amounted to 93.1% of normal, a gain of 9% over the second quarter and of 28% over the third quarter of 1935. For the first nine months of the present year business activity has averaged 85.3% of normal, an improvement of 20% over the corresponding period a year ago.

Retail trade, which softened somewhat in late August and early September, has since made a more favorable response to seasonal influences, and a similar turn for the better is noticeable in the capital goods field. Thus the Federal Reserve Board reports that department store sales in September, partly owing to an extra business day, were 14% ahead of September, 1935, compared with a cumulative gain of only 11% for the first nine months. Chain store sales for September, on an annual comparison basis, increased 20.5% against a nine months' improvement of only 13.9%, with mail order houses continuing to make by far the best showing for any group. Residential contracts let during September in 37 states east of the Rockies were nearly double those for the like month a year ago, compared with a nine months' expansion of only 73%.

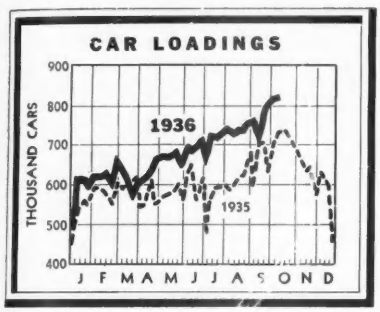


Employment and the country's purchasing power also continue to expand at an encouraging pace. During August, the latest month for which complete figures are available, non-agricultural employment gained two millions over the corresponding period last year, while annual payrolls showed a gain of 3.6 billions. The American Federation of Labor, which is usually ultra conservative in its estimates of unemployment, states that 2,216,000 went back to work during the first eight months, the most notable gains being in the construction field. Despite this improvement, however, relief rolls are not receding as might be expected, and probably will not until after the elections when, whichever side wins, it should be possible to attack the problem with less regard for political consequences. Dividends declared in September were 23% more liberal than for the corresponding month of 1935, against a cumulative increase of 24% for the first nine months. Farm income in August, as a natural aftermath of the exceptionally large spurt in July, gained only 7% over the like month a year ago; though the latest Government crop estimate conveys the encouraging news that our total wheat crop this year, despite the drought, will be slightly larger than last year and 27% ahead

of 1934. S E C reports that the amount of new capital sought through offerings of corporate securities for the first eight months reached the comparatively large total of 395 millions, against only 100 millions for the corresponding period last year.

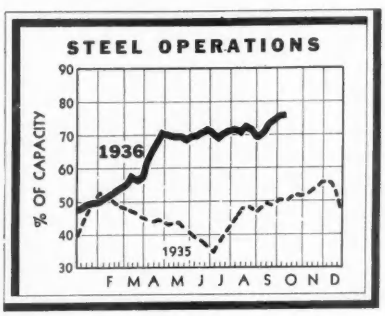
The Trend of Major Industries

RAILS—With carloadings establishing fresh recovery highs weekly, and passenger traffic staging an almost miraculous comeback under the stimulus of lower fares, expanding purchasing power of the general public, and the greater willingness to spend generated by glowing reports of business improvement throughout the country, it is scarcely surprising that earnings of the carriers, which have been among the last to emerge from depression depths, are now beginning to pick up with rapid strides, especially in comparison with last year's poor showing. Owing to the leverage effect of fixed charges and a high proportion of operating expenses which vary little with the volume of traffic, profits are mounting at a much faster pace than gross income and the volume of traffic. Thus, for the month of August, gross revenue from operations was 20% ahead of August, 1935, while net operating income gained 53%. Incomplete figures now at hand indicate that September results will also be good, though perhaps not comparing quite so favorably as August with the previous year's results; since a strong upturn set in last autumn, owing partly to advancing of the automobile season. Normally, railroad freight traffic reaches a seasonal peak around the middle of October, and declines steadily up to the year-end holidays; but this year the seasonal recession is not expected to be so severe as last year.



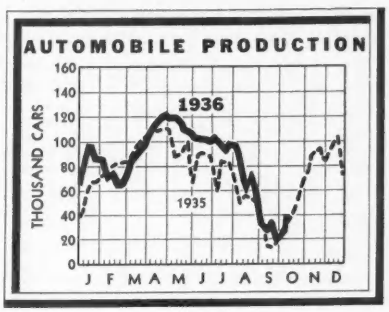
PETROLEUM—Statistically the oil industry remains in a comparatively strong position. Scattered reductions in gasoline prices which have been posted since our last issue are to be regarded as nothing more significant than the usual method of stimulating consumption during the approaching season of receding demand. By way of partial compensation for this, prices of residual fuel oil are being advanced; since, with demand 25% heavier than a year ago and inventories at low ebb, this division of the industry is in the strongest position for over a year. Stocks of crude, moreover, are receding so rapidly, despite a high rate of production, that a strong agitation among the chief producing states is under way to have their allowable output quotas increased. Texas in particular is complaining that she is at present producing only 4% of the state's potential capacity, whereas Oklahoma is producing at 25%, and some other states at 100%.

METALS—With the worst of world currency uncertainties out of the way, export copper has again climbed to within hailing distance of the 10-cent level. So long as Europe continues its hectic race to rearm, and world business activity goes on expanding, it seems quite certain that prices for the red metal will rise gradually, especially in view of the firm control which producers are now exercising over production. While official figures are not yet available, it is believed in the trade that September must have brought a sharp reduction in world stocks.



Possibilities for rising profits in the industry may be seen in the observation that, while world demand is now within 17% of the 1929 level, the total amount that is being spent for copper, at gold prices, is only 30% of what its consumption cost the world's industries in 1929.

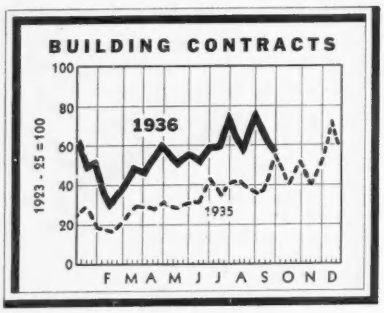
Owing to the close control over the metal exercised by the international tin cartel, there has been no appreciable recession in domestic price since our last issue, despite the devaluation of gold bloc currencies and softness in the sterling exchange rate. The recent merger of two large Dutch tin producers, resulting in reduced costs and sharply higher profit margin owing to guilder depreciation, has created the world's largest and cheapest tin producer. This development, combined with the reluctance of Siam to sign again except on her own terms, may bring failure to renew the present international restriction agreement before it expires at this year end. A possible outcome would be cheaper tin next year.



RETAIL TRADE — With the advent of cooler weather, and spurred by rising optimism as to business prospects, there has been a brisk upturn in retail trade throughout the country and merchants are anticipating a heavy Christmas season. While higher priced goods and quality merchandise are showing the sharpest percentage pick-up, even the cheapest articles are beginning to move in larger volume. This is especially true in areas which cater to the rural population whose income for the time being has been greatly swelled by heavy marketings of farm products at prices higher than a year ago. Sales by the two leading mail-order houses in September, and for nine months, established new high records. Furs, jewelry and toys are being ordered in much better volume than a year

ago, and even the Woolworth chain reports that business in September was the best for any like month in its history.

STEEL—Owing to fears of delayed deliveries, bookings in the steel industry during September were 25% to 50% heavier than for August, and raised backlogs of unfilled orders to the best level since 1929. Operations are expanding slowly, though at somewhat less than a normal seasonal rate, owing to reluctance to utilize antiquated and more costly equipment. Prospects point to the nearby need of raising wages somewhat; but the effect upon earnings should be minimized by the larger volume of activity at an even rate of operation, especially in view of better prices for semi-finished products during the fourth quarter and probably higher quotations for finished steel next year.



MOTORS — Although car and truck exports thus far this year have held barely even with the like period a year ago, and while newly depreciated foreign currencies may present further difficulties in the export field from now on, the expansion in domestic purchasing power and business optimism promises an aggregate volume of sales for the fourth quarter that should be well above the closing three months of 1935. Profits also should be gratifying, despite price reductions in the cheaper cars.

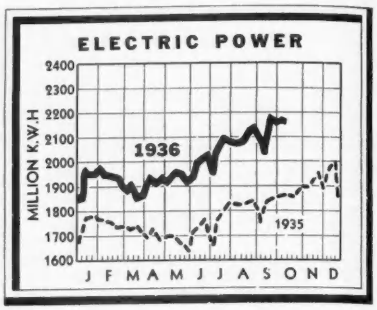
TIRES AND RUBBER — Tire output this year is expected to reach 52 million units, the largest since 1930. Twenty-two millions of this total will be used for original equipment, 29 millions for replacements, and 1.3 million for export. World consumption of rubber this year may reach 1,000,000 tons (two-thirds of which will be absorbed by the motor car industry), the largest for any year on record.

BUILDING—For the first time during the depression the volume of residential contracts has become equal to that of all other construction work. During the first nine months, residential contracts aggregated $588,000,000, an increase of 73% over the corresponding period of 1935.

SUGAR — With domestic consumption expected to run 150,000 tons under the quota this year, and an estimated increase of some 30,000 in next year's domestic beet sugar crop, prices for both raw and refined sugar have been reduced of recent weeks. However, the spread is still favorable for refining profits.

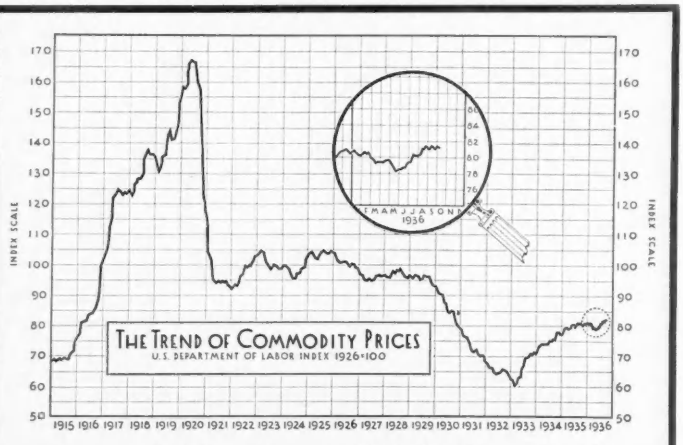
LEATHER—Boot and shoe production this year is expected to be the largest on record, and prices are somewhat above last year's average. With stable hide and leather prices, this promises fair profits for tanners and shoe manufacturers.

ELECTRIC POWER — Electric power output continues to establish new weekly high records and, despite lower rates and higher taxes, is enabling the utilities to stage an encouraging comeback which should be reflected in better prices for the industries' securities, when the election is out of the way.



Conclusion

Thus far the many readjustments in foreign currencies appear to have exerted little influence upon domestic prices beyond encouraging foreign funds to seek employment in our security markets. This is only natural in view of continued political disturbances abroad; since, regardless of how our elections go, it seems probable that the fourth quarter will set a new recovery record. But, even if business during the final three months should be merely equal to the third quarter volume, it would still show an average gain of 22% over the closing quarter of 1935. It is quite certain that earnings reports for the third quarter, by and large, will show exceptionally large gains over last year, and that results for the full year will also be highly gratifying.



Changes in Major Commodity Price Group for the Fortnight Ended Oct. 10, 1936

Farm products	up	1.0	Metals	down	0.5
Foods	up	1.0	Building materials	up	0.2
Hides and leather	up	0.3	Chemicals	down	0.1
Textiles	up	0.3	Housefurnishings	no change	
Fuel and lighting	up	0.3	Miscellaneous	down	0.1

Essential Statistics

Finance — Securities — Business

THE MAGAZINE OF WALL STREET'S COMMON STOCK INDEX

1935 Indexes High	1935 Indexes Low	No. of Issues	(1925 Close—100)	1936 Indexes High	1936 Indexes Low	Oct. 3	Oct. 10	Oct. 17
78.6	43.0	295	COMBINED AVER.	98.6	78.4	95.3	97.5	98.6H
119.5	64.1	5	Agricultural Implements	186.9	113.4	171.4	176.3	183.5
41.9	17.8	6	Amusements	57.4	39.9	53.2	53.9	57.4h
116.9	44.6	14	Automobile Accessories	142.2	116.8	136.7	139.9	141.4
17.7	8.8	13	Automobiles	24.2	17.7	23.5	23.6	23.7
108.2	41.3	7	Aviation (1927 Cl.—100)	141.0	104.3	128.9	125.4	122.2
14.7	7.9	3	Baking (1926 Cl.—100)	19.1	12.6	17.9	18.3	19.1h
325.0	184.9	2	Bot. & Cks. ('32 Cl.–100)	472.5	318.6	458.2	472.5H	468.7
209.9	113.7	3	Business Machines	252.1	202.8	234.7	239.7	252.1H
316.6	22.61	2	Cans	287.4	243.1	250.0	256.7	256.7
202.7	14.46	8	Chemicals	224.1	187.5	217.5	223.3	224.1
42.8	2.26	10	Construction	65.6	42.8	60.2	63.0	65.6H
88.6	3.57	6	Copper & Brass	139.4	87.9	129.1	129.3	139.4H
39.3	27.5	2	Dairy Products	47.8	39.3	42.7	43.8	43.5
26.6	16.0	9	Department Stores	35.2	23.3	33.9	34.8	35.2H
87.6	56.1	7	Drugs & Toilet Articles	98.9	72.8	87.4	89.0	90.8
270.0	211.2	2	Finance Companies	415.3	227.2	415.3H	409.8	407.2
66.2	51.8	7	Food Brands	70.1	60.9	62.8	65.0	67.4
56.4	46.2	4	Food Stores	50.3	41.4	43.3	44.9	49.1
65.7	32.1	3	Furniture & Floor Cover	96.2	65.7	92.8	93.7	96.2H
1209.7	990.2	3	Gold Mining	1296.9	1116.0	1276.7	1217.6	1207.6
46.8	35.3	5	Household Equipment	56.3	46.5	52.0	54.3	56.3H
38.7	17.0	5	Investment Trusts	48.3	36.6	46.4	47.3	48.3H
359.0	223.6	2	Liquor (1932 Cl.—100)	333.8	265.2	317.3	316.3	318.9
139.0	65.1	9	Machinery	174.6	134.7	165.1	172.2	174.6H
67.3	36.0	2	Mail Order	96.3	61.3	88.0	92.2	96.3H
63.0	34.5	4	Meat Packing	83.9	59.4	71.8	67.8	68.6
183.6	109.4	10	Metal Mining & Smelting	198.0	159.5	188.4	190.5	180.0H
97.2	51.3	24	Petroleum	123.2	97.2	112.7	118.1	116.0
67.2	23.0	18	Public Utilities	91.2	67.2	81.6	83.6	81.4
33.0	15.9	3	Radio (1927—100)	35.4	26.7	29.1	29.0	29.9
85.7	29.3	8	Railroad Equipment	82.2	52.5	78.1	79.9	82.2H
28.8	16.5	24	Railroads	39.8	27.3	38.2	38.1	39.8h
16.8	5.2	3	Realty	22.9	13.4	15.1	18.1	16.7
76.4	28.5	3	Shipbuilding	87.6	62.7	80.6	81.5	82.0
88.1	37.6	11	Steel & Iron	118.0	85.2	116.1	118.0H	118.0
30.4	21.1	5	Sugar	45.3	29.8	37.4	38.4	37.4
153.6	122.5	2	Sulphur	175.6	142.5	150.3	154.9	149.0
78.3	34.2	3	Telephone & Telegraph	97.4	76.6	85.9	85.8	85.9
73.5	34.7	8	Textiles	81.4	62.0	71.3	72.5	73.3
10.6	6.0	4	Tires & Rubber	17.1	10.6	16.1	17.1H	16.7
101.8	77.2	4	Tobacco	100.2	87.2	94.1	95.5	95.5
85.4	51.0	4	Traction	76.2	61.0	69.3	67.3	67.8
282.8	219.7	4	Variety Stores	308.8	232.5	295.5	306.4	308.8H

H—New HIGH record since 1931. h—New HIGH this year.

DAILY INDEXES OF SECURITIES

	N. Y. Times 40 Bonds	Dow-Jones Avgs. 30 Indus.	20 Rails	N. Y. Times 50 Stocks High	Low	Sales
Saturday, October 3	89.16	172.44	57.85	135.21	134.05	1,630,000
Monday, October 5	89.77	172.81	58.20	136.13	134.54	2,082,780
Tuesday, October 6	89.91	174.42	58.54	136.71	135.28	2,258,140
Wednesday, October 7	89.92	174.59	58.41	137.76	136.20	3,027,300
Thursday, October 8	90.00	174.93	58.75	137.62	136.05	2,226,480
Friday, October 9	90.07	175.19	59.03	138.40	136.81	2,235,490
Saturday, October 10	90.06	176.05	59.55	138.38	137.57	971,060
Monday, October 12			HOLIDAY			
Tuesday, October 13	90.02	176.29	59.85	139.64	138.23	2,067,440
Wednesday, October 14	90.02	175.57	59.89	138.91	137.34	1,642,490
Thursday, October 15	90.01	175.22	59.19	138.13	136.55	1,785,910
Friday, October 16	90.15	176.66	59.85	138.73	137.31	2,049,100
Saturday, October 17	90.20	177.63	59.85	138.93	139.22	1,152,860

STOCK MARKET VOLUME

Week Ended Oct. 17	Week Ended Oct. 10	Week Ended Oct. 3
8,697,900	12,800,250	8,844,495
Total Transactions	**Same Date**	**Same Date**
Year to Oct. 3	**1935**	**1934**
379,141,748	256,528,299	274,116,631

Note: All figures compiled as of Oct. 19. (b)—1,000 Gross tons. (C)—Iron Age. (d)—F. W. Dodge—37 States. (F)—Dun & Bradstreet. (G)—U. S. Labor Bureau '23-25—100. ★—000 omitted. †—000,000 omitted. *—Iron Age Composite. §—Week ended Oct. 15. Ag—August. Jl—July.

MONEY RATES	Latest Week	Previous Week	Year Ago
Time Money (90-day)	1¼%	1¼%	¼%
Prime Commercial Paper	¾@1%	¾@1%	¾@1%
Call Money	1%	1%	¼%
Re-Discount Rate	1½%	1½%	1½%

CREDIT			
Bank Clearings, N. Y.†	2,789	4,072	3,168
Bank Clearings (outside N. Y.)†	1,847	2,271	1,799
Brokers' Loans, F. R.†	971	993	879
	Oct. 1	**Sept. 1**	**Last Year**
Brokers' Loans N. Y. S. E.†	971	973	781
New Corporate Financing†	173	224	261

COMMODITY PRICES	Latest Week	Previous Week	Year Ago
Finished Steel*	2.197c	2.197c	2.130c
Pig Iron*	18.73	18.73	17.84
Steel Scrap*	16.67	16.75	12.67
Copper, $ per lb	.09¾	.09¾	.09¼
Lead, $ per lb	.046	.046	.045
Zinc, $ per lb	.0485	.0485	.0485
Tin, $ per lb	.4435	.4520	50¾
Rubber, $ per lb	16⅜	16⅜	.13
Crude Oil (Mid-Cont.), $ per barrel	1.10	1.10	1.00
Sugar, raw, $ per lb	.0335	.0340	.0360
Silk, raw, $ per lb	1.70	1.68	2.15
Wool, raw, $ per lb	.83-.90	.88-.90	.79
Wheat Price, Dec., $ per bu.	$1.15⅞	$1.16⅜	$1.01
Cotton Price, Dec., $ per lb	.1197	.1176	.1083
Corn Price, Dec., $ per bu	.94⅛	.95⅝	.59

KEY INDUSTRIES	Sept.	August	Year Ago
Steel Ingot Prod. (b) (tons)	4,161	4,195	2,830
U. S. Steel Corp. Shipments (b) (tons)	961.8	923.7	614.9
Pig Iron Production (b) (tons)	2,730	2,711	1,776
Operating Rate, % Capacity	75.0§	75.5	52.5
Auto. Production	271,291(Ag)	294,734(Jl)	168,557
Bldg. Contract Awards(d)★	$234,270	$275,23	$167,376
Cement Shipments★(bbls.)	12,564	12,560	7,799
Coal Production (tons) Bit.	36,772	33,240	25,038
Cotton Consumption (bales)	605	574	449
Active Spindles★	23,434(Ag)	23,252(Jl)	22,046
Mach. Tool Orders, '26 — 100%	118.5	127.5	80.0

	Latest Week	Previous Week	Year Ago
Oil Prod., daily aver. (bbls.)★	3,025	2,988	2,782
Stocks of Gasoline and Fuel Oil★ (bbls.)	112,712	112,504	110,123
Elec. Pwr. Output (kwh)†	2,168	2,169	1,867

TRANSPORTATION	Latest Week	Previous Week	Year Ago
Carloadings★	819	807	705
Miscellaneous Freight★	334	332	287
Merchandise, LCL.★	173	173	166

TRADE	September	August	Year Ago
Dept. Store Sales '23-'25 — 100%	88	87	81
Mail Order Sales★	$66,325(Ag)	$65,270(Jl)	$52,402
Merchandise Imports★	195,016(Ag)	194,180(Jl)	169,030
Merchandise Exports★	195,016(Ag)	179,776(Jl)	172,126
Business Failures (F)	586	655	787

EMPLOYMENT	August	July	Year Ago
Factory (G)	88.7	86.8	82.0
Durable Goods Industries (G)	79.7	79.7	70.5
Consumers Goods (G)	98.5	94.4	94.3
Factory Payrolls (G)	81.0	77.8	69.7

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

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Collins & Aikman Corp.

I would like to know if the outlook for Collins & Aikman continues favorable. I imagine this hinges on the outlook for the motor car industry. For your information I have 100 shares averaging 23.—T. V. V., Houston, Texas.

You are correct in your understanding that Collins & Aikman is closely linked with the automobile industry, since about 75% of output normally is sold thereto, the balance going largely to the furniture trade. Reflecting a firm price structure and further improvement in demand for automobile fabrics together with increased sales to furniture manufacturers, earnings of the company for the fiscal year ended Feb. 29, 1936, were the highest on record having equalled $6.28 a share on the common stock, after preferred requirements, against only $4.31 a share on the 7% preferred in the preceding comparable interval. For the first quarter of the current fiscal year, or for the three months ended May 31, 1936, the company earned $1.96 a share on the common stock, against $1.43 a share a year earlier and with operations well sustained since that time there is the distinct possibility that earnings this year will set another record. There were 62,768 shares of 7% cumulative preferred stock outstanding at the last fiscal year-end, but 20% of that amount has since been called for payment on November 2, 1936, at $110 per share. The financial condition of the company is strong; on February 29, 1936, current assets of $12,372,411, including cash of nearly $4,000,000 contrasted with current liabilities of $2,384,700. In view of the favorable earnings outlook, there would seem to be the distinct possibility of refunding the balance of the present outstanding preferred into a lower dividend-paying issue. Such a move would naturally work to the advantage of common stockholders. On September 1, last, a quarterly payment of 50 cents a share on the common stock was supplemented by an extra of $1 a share and with finances in good shape, further liberal payments appear probable. Indications are that demand for fabrics for the automobile industry will show further moderate improvement and with the furniture trade enjoying healthy gains in line with expanding public purchasing power, sales prospects for the company continue decidedly constructive. In the past, raw material costs have apparently played an important part in earnings and higher material prices could conceivably restrict the margin of profit on available business. However, where the speculative risk is recognized, the shares are priced at levels reasonable in relation to current earnings and from which further worthwhile appreciation does not appear improbable.

Continental Insurance Co.

It seems to me that, in view of generally higher stock prices, Continental Insurance shares should do better. What are the factors holding them back? Is early improvement a possibility?—C. J. L., St. Louis, Mo.

Report of the Continental Insurance Co. for the first six months of 1936, showed earnings of $1.12 a share on the capital stock, against $1.36 a share a year earlier, due largely to lower premium income and somewhat higher losses. However, the outlook for volume of insurance written is favorable and this increase may offset, in a large measure, lower rates. That the company is benefiting from improvement in the securities market is indicated by the balance sheet dated June 30, 1936, when the liquidating value per share of stock amounted to $39.60 against $30.71 at the close of 1935. Further market appreciation doubtless has since accrued to the company since its portfolio includes large blocks of industrial equities which recently have scored sizable gains in the market. With more than two-thirds of the company's investment portfolio consisting of common stocks, it may be seen that the concern does not differ

(Please turn to page 59)

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DEERE & COMPANY . . . a Trading Advice . . . was recommended September 30 at an average of 83. It is now 96 . . . a paper profit of 13 points in 2½ weeks. • General Cable A . . . a Long Term Speculation . . . was recommended July 28 at 31¾. It is now 48¾ . . . 17 points profit or 53% appreciation in 2½ months.

Our record to date this year on closed-out transactions alone shows 298⅝ points profit . . . after deducting losses . . . substantial profits having been made available in every department of our service. This is the result of our recommendations of *what* and *when to buy* and *when to sell* . . . our scientifically conducted, well-balanced programs concentrated in a fixed number of sound listed securities kept under our supervision.

Exceptional profit opportunities will be open to our subscribers over the coming months. After election, a veritable flood of dividends will come in November and December. They will reflect increased earnings and, particularly, the new tax on undistributed corporate profits. With the outcome of the election decided and the international monetary situation more clearly defined, many uncertainties will be removed and industry will be able to make more aggressive plans for future expansion. The plethora of investment funds should cushion any intermediate technical reactions.

Every indication points to a rising though selective market trend during the remainder of this year and throughout 1937. The FORECAST . . . with its specially trained staff and more than 17 years experience in successfully guiding investors and traders in all types of markets . . . is able to properly interpret the various factors that influence security values and can help you materially in your efforts to increase your capital and equity.

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New York Stock Exchange

Rails

	1934		1935		1936		Last Sale	Div'd $ Per
A	High	Low	High	Low	High	Low	10/14/36	Share
Atchison	74¾	45¼	60	35¾	88½	59	82½	‡2
Atlantic Coast Line	54¼	24½	37¼	19½	44¾	21⅝	43	..
B								
Baltimore & Ohio	34½	12¾	18	7½	26½	15⅞	25⅝	..
Bangor & Aroostook	46⅛	35½	49½	36⅛	49½	41⅞	46	2.50
Brooklyn-Manhattan Transit	44⅞	28¼	46¾	36½	58¼	40¼	56½	4
C								
Canadian Pacific	18¼	10⅞	13¾	8⅝	16	10⅞	13½	..
Chesapeake & Ohio	48⅝	39½	53¼	37⅛	76⅜	51	75¾	2.80
C. M. & St. Paul & Pacific	8½	2	3	¼	2⅞	1½	1⅞	..
Chicago & Northwestern	15	3½	5⅝	1⅜	4⅞	2½	3⅞	..
Chicago, Rock Is. & Pacific	6¼	1⅜	2⅝	¾	3	1½	2½	..
D								
Delaware & Hudson	73½	35	43½	23½	54¾	36¾	52⅝	..
Delaware, Lack. & West	33¾	14	19⅛	11	23⅛	14⅞	21¼	..
E								
Erie R. R.	24⅞	9⅜	14	7⅛	18¼	11	17	..
G								
Great Northern Pfd	32½	12¼	35⅛	9⅝	46	32¼	46	..
H								
Hudson & Manhattan	12⅛	4	5½	2¾	5⅞	3⅛	3⅞	..
I								
Illinois Central	38⅞	13⅝	22¼	9½	29¼	18⅝	28½	..
Interborough Rapid Transit	17½	5¼	23⅜	8¾	18⅞	11½	13⅛	..
K								
Kansas City Southern	19¾	6⅝	14½	3¾	26	13	22	..
L								
Lehigh Valley	21¼	9½	11½	5	20½	8½	19½	..
Louisville & Nashville	62½	37¾	64¾	34	101¾	57½	101½	‡4.50
M								
Mo., Kansas & Texas	14⅞	4⅜	6⅜	2½	9⅝	5½	8⅜	..
Missouri Pacific	6	1½	3	1	4	2⅛	3⅝	..
N								
New York Central	45¼	18⅜	29¾	12¼	49⅝	27¾	48¼	..
N. Y., Chic. & St. Louis	26⅞	9	19	6	53⅛	17¾	48½	..
N. Y., N. H. & Hartford	24⅛	6	8½	2⅝	5⅝	3	4¼	..
N. Y., Ontario & Western	11⅝	4½	6½	2⅝	7½	4	5⅝	..
Northern Pacific	36¼	14½	25¼	13⅛	36¾	23⅞	30⅞	..
P								
Pennsylvania	39⅛	20⅛	32½	17¼	43¾	28¼	43¾	‡1
Pere Marquette	38	12	34½	9¼	46½	25⅛	45⅛	..
Pittsburgh & W. Va	27	10	25	6⅞	41¼	21	38½	..
R								
Reading	56⅜	35⅛	43⅛	29⅞	50¾	35½	49⅞	2
S								
St. Louis-San Fran	4⅝	1⅛	2	¾	3⅝	1½	2¼	..
St. Louis-Southwestern	20	8	14	7¾	15	7⅛	14	..
Southern Pacific	33¾	14⅞	25½	12¾	47⅞	23½	46⅛	..
Southern Railway	36½	11½	16½	5½	25¾	12¾	25	..
T								
Texas & Pacific	43¼	13½	28½	14	49	28	45	..
U								
Union Pacific	133⅞	90	111½	82½	149¾	108½	143	6
W								
Western Maryland	17¼	7⅛	10⅛	5½	12⅛	8⅛	10¼	..

Industrials and Miscellaneous

	1934		1935		1936		Last Sale	Div'd $ Per
A	High	Low	High	Low	High	Low	10/14/36	Share
Adams-Millis	34⅞	16	37¼	38	35¾	17⅞	28¼	‡1.25
Air Reduction	113	91¾	173	104¾	81¾	58	74⅞	*1
Alaska Juneau	23⅞	16⅝	20⅛	13¼	17½	13	15⅝	*.60
Allegheny Steel	23⅛	15	32	21	40¾	26⅞	37⅞	*1
Allied Chemical & Dye	160¾	115⅛	173	125	245	157	233½	6
Allis Chalmers Mfg	23⅜	10⅜	33⅞	12	66	35⅜	65⅜	1.50
Alpha Portland Cement	20⅛	11½	22¾	14	28⅞	19¾	29⅜	1
Amerada	55⅝	39	80	48½	125½	75	99	2
Amer. Agric. Chemical (Del.)	48	25¼	57¾	41½	71½	49	70	3
American Bank Note	25¼	11½	47¾	13½	55½	37	43	1
Amer. Brake Shoe & Fdy	38	19½	42½	21	64½	40	61½	1.60
American Can	114¾	90¼	149⅝	110	137½	115¾	126¾	*4
Amer. Car & Fdy	33⅞	12	33⅞	10	54⅞	30	54	..
American & Foreign Power	13¾	3⅞	9¼	2	9¾	6½	7	..
Amer. Power & Light	12¼	3	9⅝	1½	14⅜	7½	12	..
Amer. Radiator & S. S.	17⅝	10	25⅛	10½	27⅜	18¾	23¼	‡.15
American Rolling Mill	28¼	13½	32⅜	15¾	34	23¾	32	1.20
Amer. Smelting & Refining	51¼	30¼	64⅝	31⅝	91	56¾	89	2
Amer. Steel Foundries	26½	10⅛	25¼	12	45¾	20½	44½	..
Amer. Sugar Refining	72	46	70½	50⅛	63⅝	48¼	55	2
Amer. Tel. & Tel.	125¼	100⅛	160½	98⅞	180	149½	179	9
Amer. Tob. B	89	67	107	74¾	104	88½	101½	5
Amer. Water Works & Elec	27⅝	12⅝	22¾	7⅛	27½	19⅛	25¾	‡.20
Amer. Woolen Pfd.	83¾	36	68¾	35½	70¾	52¾	55⅜	‡3
Anaconda Copper Mining	17¾	10	30	8	43	28	42⅞	*1
Armour Co. of Ill	6¾	3½	6⅛	3¼	7⅜	4⅝	5½	..
Atlantic Refining	35¼	21½	28	20½	35⅛	26⅝	28⅜	1
Auburn Auto	57⅜	16½	45½	15	54¼	26⅝	33¾	..
Aviation Corp. Del	10¾	3¾	5¼	2¾	7¾	4⅝	5⅛	..
B								
Baldwin Loco. Works	16	4½	6⅝	1½	6⅞	2½	5⅜	..
Bayuk Cigar	45¾	23	66¾	37½	19⅝	16¾	18	.75
Beatrice Creamery	19¾	10¼	20⅛	14	26	18	22¾	1
Beech-Nut Packing	76⅝	58	95	72	97	85	94⅛	*3

Price Range of Active Stocks

Industrials and Miscellaneous (Continued)

	1934		1935		1936		Last Sale	Div'd $ Per
B	High	Low	High	Low	High	Low	10/14/36	Share
Bendix Aviation	23⅞	9¾	24½	11⅞	32⅜	21⅝	31	*1
Best & Co.	40	26	57½	34	63½	48	62½	2.50
Bethlehem Steel	49½	24⅛	52	21⅝	75¾	45¾	73⅝	..
John Aluminum	68¾	44½	59⅞	39⅝	63⅛	41	45¾	3
Borden Co.	28¼	19⅞	27¾	21	32⅜	25⅝	28	1.60
Borg Warner	31⅜	16⅛	70½	28¼	83½	64	80	*3
Briggs Mfg.	28⅜	12	55⅜	24½	64⅞	43¼	62	*2
Bristol-Meyers	37⅛	26	42	30⅜	50½	41	45	*2
Burroughs Adding Machine	19⅜	10½	28	13¼	34⅛	25	32¾	*.60
Byers & Co. (A. M.)	32¾	13¾	20⅝	11⅜	25⅜	16½	23¾	..
C								
California Packing	44⅜	18¾	42½	30½	43¾	30¼	38¾	1.50
Canada Dry Ginger Ale	29½	12½	17⅝	8⅛	20¼	10⅜	18¾	..
Case, J. L.	86¾	35	111¼	45¾	186	92½	165	..
Caterpillar Tractor	38¾	23	60	36½	84¼	54¾	83¼	2
Celanese Corp.	44⅞	17⅛	35⅜	19½	32¼	21¾	26¾	‡.50
Cerro de Pasco Copper	44½	30¼	65¾	38⅝	58	47¾	55	4
Chesapeake Corp.	48⅞	34	61¼	36	95¾	59	95	3
Chrysler Corp.	60⅜	29¼	93⅞	31	128½	85½	125⅞	‡6.50
Coca-Cola Co.	161½	95¼	93	72½	125	84	122	2
Colgate-Palmolive-Peet	18⅛	9⅜	21	15⅛	20½	13	16¾	.50
Columbian Carbon	77¼	58	101¼	67	136½	94	126	*4
Colum. Gas & Elec.	19¼	6⅝	15¾	3⅜	23⅜	14	19⅝	‡.40
Commercial Credit	40¼	18⅝	58	39½	84⅞	44	70¾	*4
Comm. Inv. Trust	61	35¾	72	56¼	84⅞	55	82½	4
Commerical Solvents	36¾	15¾	23⅞	16½	24⅝	14¼	16⅝	.60
Congoleum-Nairn	35⅜	22	27	45¾	44½	30⅞	36¼	1.60
Consolidated Edison of N. Y.	47⅜	18½	34¾	15⅞	45¼	27¼	44¼	2
Consolidated Oil	14¼	7¼	12¼	6½	15¼	11½	13⅝	*.60
Container Corp.	....	....	23⅛	22	26¼	15¾	21¾	1
Continental Can	64½	56¾	99¼	62¾	87¼	67½	72	*3
Continental Insurance	36¼	23⅜	44⅞	28⅞	46	35½	40½	*1.20
Continental Oil	22¾	15¾	35	15⅛	38½	28⅛	33⅝	*1
Corn Products Refining	84½	55½	78⅜	60	82½	63⅝	72½	*3
Crown Cork & Seal	36¼	18¾	48⅞	23½	84⅞	43⅝	82½	2
Cudahy Packing	52⅝	37	47½	35⅛	44½	35½	37½	2.50
Cutler-Hammer	21½	11	47	16	70	43¼	69¼	*1
D								
Deere & Co.	34⅛	10⅛	58¾	22¾	94⅞	52	90¼	..
Diamond Match	28½	21	41	26½	40½	30⅛	33	*1.50
Distillers Corp. Seagrams	26⅝	⅞	38⅛	13⅝	34⅝	18¼	23⅝	..
Dome Mines	46¼	32	44⅞	34⅛	61½	41½	52⅛	*2
Douglas Aircraft	28½	14¼	58⅜	17½	82¼	50⅝	70⅜	..
Du Pont de Nemours	103⅞	80	146½	86⅝	168¾	133	167½	*3.60
E								
Eastman Kodak	116½	79	172¼	110½	185	156	176½	*5
Electric Auto Lite	31⅜	15	38⅜	19⅜	47	30¾	45	‡2
Elec. Power & Light	9⅝	2¼	7½	1⅛	17¾	6⅜	14⅞	..
Electric Storage Battery	52	34	58¾	39	55¼	42⅜	46⅜	2
F								
Fairbanks, Morse	18¾	7	39½	17	70¾	34¾	69	*1
Firestone Tire & Rubber	25¼	13⅛	25½	13⅛	33⅛	24⅞	29⅜	‡.90
First National Stores	69¼	53	58⅞	44⅜	48¾	40	46⅞	2.50
Foster Wheeler	22	8½	30	9⅞	38¾	24⅛	36⅛	..
Freeport Texas	50⅜	21½	30⅝	17¼	35⅝	23½	26	1
G								
General Amer. Transpt.	43⅝	30	48½	32⅝	63	42¼	62	1.75
General Baking	14⅜	6½	13⅜	7⅜	15⅛	10¾	15⅛	*.60
General Electric	25¼	16⅛	40⅞	20½	49¼	34½	48⅝	1
General Foods	36⅞	28	37½	30	43⅛	33⅜	40⅛	1.80
General Mills	64½	51	72½	59⅞	70½	58	62¾	3
General Motors	42	24⅝	59⅜	26⅝	73⅛	53⅞	71½	*2
General Railway Signal	45¾	23½	41¼	15⅝	50	32½	46¼	1
General Refractories	23⅜	10⅛	33½	16¾	54¾	33¼	54	‡1.50
Gillette Safety Razor	14⅞	8⅛	19½	12	18⅝	13⅜	15¾	1
Glidden	28⅜	15⅝	49½	23⅜	55¼	39¾	45½	2
Gold Dust	23	16	22	14⅜	21¾	12⅝	14⅝	.60
Goodrich Co. (B. F.)	18	8	14½	7½	25⅛	13⅜	23⅞	..
Goodyear Tire & Rubber	41⅜	18½	26⅞	15¾	31⅞	21⅝	26¾	..
Great Western Sugar	35¼	25	34⅞	26⅝	39	31	35	2.40
H								
Hercules Powder	81⅝	59	90	71	117½	84	118	5
Hershey Chocolate	73¾	48½	81¾	73¼	80	58⅞	73	3
Homestake Mining	430½	310	495	338	544	414	426	*12
Hudson Motor Car	24½	6⅛	17½	6¼	19¾	13½	18	..
Hupp Motor Car	7¼	1⅞	3⅞	¾	3¼	1	2⅛	..
I								
Industrial Rayon	32¼	19⅜	36⅜	23½	38⅛	25⅝	37⅜	1.68
Ingersoll-Rand	73¾	49½	121	60½	147	106	129	*2
Inter. Business Machines	164	131	190½	149¼	185¼	160	173	*6
Inter. Cement	37¾	18⅜	36⅞	22⅞	58⅛	35½	57⅞	2
Inter. Harvester	46⅞	23¼	65⅝	34⅛	90⅞	56⅝	89⅜	2.50
Inter. Nickel	29¼	21	47¼	22¼	63	43¼	61¼	1.40
Inter. Tel. & Tel.	17¾	7½	14	5⅝	19¼	11⅛	12¾	..
J								
Johns-Manville	66⅜	39	99½	38½	129	88	121	*2
K								
Kelvinator	21¼	11⅝	18¼	10¼	25⅝	14¾	21⅞	*.50
Kennecott Copper	23⅛	16	30⅜	13¾	52⅝	28¼	52¼	1.20
Kroger Grocery & Baking	33⅝	23¼	32⅛	22¼	28	19⅜	22⅜	1.60
L								
Lambert	31¾	22¼	28½	21¾	26¾	15⅞	18	2
Lehman Corp.	78	68¼	95¾	67⅛	112⅜	89	112	*3
Libbey-Owens-Ford	43⅞	22½	49¼	21½	71	47¼	69	‡2.25
Liggett & Myers Tob. B	111¼	74½	120	94¼	116½	97¾	105	*4
Loew's	37	20⅜	55⅛	31¼	62⅞	43	56	*2
Loose-Wiles Biscuit	44¾	33¼	41⅝	33	45	39¾	40	2
Lorillard	22½	15¾	26½	18½	26½	21⅛	23½	1.20
M								
Mack Truck	41¾	22	30⅝	18⅝	48	27⅜	44½	1
Macy (R. H.)	62⅛	35¼	57½	30½	52⅞	40⅛	51⅝	2
Mathieson Alkali	40¾	23½	33⅞	23¾	37½	27½	35½	1.50

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New York Stock Exchange Price Range of Active Stocks

Industrials and Miscellaneous (Continued)

	1934		1935		1936		Last Sale	Div'd $ Per
M	High	Low	High	Low	High	Low	10/14/36	Share
May Dept. Stores	45¾	30	57¾	35⅞	64½	43¼	63¼	2
McIntyre Porcupine	50½	30½	45⅝	33¾	49⅜	38⅛	39⅛	2
McKeesport Tin Plate	95½	79	131	90½	118½	85	101	*4
Mesta Machine	34¾	20⅛	42⅝	24⅛	64¼	40⅝	60	‡3.25
Monsanto Chemical	96½	39	94¾	55	103	79	97	*1
Mont. Ward & Co	35⅝	20	40⅞	21¾	55	35¾	54¼	.80
N								
Nash Motor	32¼	12⅝	19½	11	21⅞	15	18¾	1
National Biscuit	49½	25⅞	36⅜	22¼	38¾	28¾	32	1.60
National Cash Register	23⅝	12	23½	13½	30	21½	28⅛	.50
National Dairy Prod	18¾	13	22⅛	12⅞	28¼	21	26¼	1.20
National Distillers	31⅝	16	34½	23⅛	33⅜	25⅝	29⅝	2
National Lead	....	....	....	....	31⅜	26⅜	28⅛	*.50
National Power & Light	15½	6⅝	14¾	4⅞	14⅞	9⅝	11¾	.60
National Steel	58¼	34½	83¾	40⅜	75½	57¼	72	1.50
N. Y. Air Brake	28¾	11½	36½	18½	67¼	32½	66	‡1
North American	25¼	10¼	28	9	35½	23⅛	31¾	1
O								
Otis Elevator	19⅜	12½	26⅝	11⅛	32¾	24¼	28⅝	.60
Owens-Ill. Glass	94	60	129	80	164	128	151	5
P								
Pacific Gas & Electric	23½	12⅜	31⅝	13⅛	41	30¾	39¼	1.50
Pacific Lighting	37	20¾	56	19	58¾	47⅝	54½	*2.40
Packard Motor Car	6⅝	2¾	7½	3½	13⅜	6⅞	12¼	‡.25
Paramount Pictures	....	....	12	8	13⅝	7⅛	13	....
Penney (J. C.)	74¼	51½	84¾	57¼	95	69	94¾	‡2.50
Pennick & Ford	67	44⅝	81	64½	73	60	62¾	3
Phelps Dodge	18⅞	13¼	28⅛	12¾	41⅞	25⅝	41⅜	‡.75
Phillips Petroleum	20¾	13⅜	40	13¾	49⅞	38⅛	44¾	*1
Pillsbury Flour Mills	34¾	18½	38	31	37¼	29¼	29⅞	1.60
Procter & Gamble	44⅜	33⅛	53¾	42⅜	49	40¼	49½	*1.50
Public Service of N. J.	45	25	46¾	20⅜	49¼	39	46⅝	2.40
Pullman	59⅜	35¼	52⅞	29½	65⅜	36⅞	64	1.50
R								
Radio Corp. of America	9⅛	4½	13⅜	4	14¼	9¾	10⅝	....
Radio-Keith-Orpheum	4¼	1½	6	1¼	9¼	5	7¼	....
Raybestos-Manhattan	23	14½	30¼	16½	38¼	28⅞	34¾	1.50
Remington Rand	13⅜	6	20¾	7	23¾	17½	19¾	*.60
Republic Steel	25¾	10½	20¾	9	26¾	16⅛	25¼	....
Reynolds (R. J.) Tob. Cl. B	53¾	39¾	67	55¼	58⅝	50	57¼	3
S								
Safeway Stores	57	38¼	46	31⅝	35½	27	35⅝	2
Schenley Distillers	38⅞	17⅛	56¼	22	52	37¾	50¼	3
Sears, Roebuck	51¼	31	69⅞	31	95	59⅝	94¾	2
Servel	9	4⅜	17	7⅝	29	15⅞	29	.60
Shattuck (F. G.)	13⅞	6¾	12⅞	7¼	18⅛	11⅛	18	.50
Shell Union Oil	11½	6	16⅛	5½	24¾	14¾	23¼	....
Socony-Vacuum Corp	19⅞	12½	15¾	10⅝	17	12½	16¼	.50
So. Cal. Edison	22½	10⅛	27	10⅝	32½	25	31¼	1.50
Spiegel May Stern	76¾	64	84	43⅞	91¼	63	87	3
Standard Brands	25¼	17¼	19⅛	12½	18	14⅜	17¼	.80
Standard Oil of Calif	42⅞	26½	41⅛	27¾	47⅝	35	38½	*1
Standard Oil of Ind	32¾	23¼	33⅜	23	40⅞	32¾	39¼	*1
Standard Oil of N. J.	50⅛	39¼	52⅜	35¾	70	51⅛	64⅛	*1
Sterling Products	66½	47¼	68	58⅜	76¾	65	75½	3.80
Stewart-Warner	10⅝	4½	18⅞	6⅝	24½	16½	20½	*.50
Stone & Webster	13¼	3⅞	15⅛	2½	21¾	14⅞	18¼	....
Sun Oil	74½	51½	77	60½	91	72	80½	*1
T								
Texas Corp	29⅜	19⅝	30¼	16½	43⅜	28⅞	42⅜	*1
Texas Gulf Sulphur	43¼	30	36¾	28¾	39⅛	33	37⅛	2
Tide Water Assoc. Oil	14⅜	8	15⅞	7⅝	19½	14¾	18¾	.60
Timken Roller Bearing	41	24	72½	28⅜	72½	56	67½	*2
Tri-Continental	6¾	3	8¼	1⅞	12	7⅛	10	‡.25
Twentieth Century-Fox	....	....	24⅞	13	32⅜	22½	33	‡1
U								
Union Carbide & Carbon	50⅞	35⅞	75¾	44	101⅜	71⅝	99¼	‡2.80
Union Oil of Cal	20½	11½	24	14¾	28½	20¾	23⅛	1
United Aircraft	15¼	8⅛	30⅜	9⅞	32⅜	20⅝	24⅜	....
United Carbon	50⅜	35	78	46	91¼	68	90½	3
United Corp	8⅞	2⅛	7¾	1½	9¼	5⅜	7½	....
United Corp. Pfd	37⅞	21¼	45¾	20¾	48⅞	40¼	46	3
United Fruit	77	59	92¾	60½	85⅛	66½	79½	3
United Gas Imp	20⅛	11½	18⅛	9¼	19½	14⅜	16	1
U. S. Gypsum	51¼	34¼	87	40½	110½	80½	102¼	2
U. S. Industrial Alcohol	64¾	32	50⅝	35⅛	59	31¼	40¼	....
U. S. Pipe & Fdy	33	15½	22⅝	14¾	56	21½	53¼	1.50
U. S. Rubber	24	11	17¼	9⅛	38⅞	16⅜	37⅜	....
U. S. Smelting, Ref. & Mining	141	96⅝	124½	91¾	96½	72¼	83	‡10
U. S. Steel	59⅛	29⅜	50⅝	27½	77⅛	46¾	76¼	....
U. S. Steel Pfd	99½	67¼	119¼	73⅝	141½	115½	141	4
V								
Vanadium	31¾	14	21¾	11¼	27¼	16¼	23½	....
W								
Warner Brothers Pictures	8¼	2¾	10¾	2⅛	14⅝	9¼	13¼	....
Western Union Tel	66⅞	29½	77¼	20⅝	95	72½	88	‡2
Westinghouse Air Brake	36	15⅞	35¾	18	48⅛	34¾	45	1
Westinghouse Elec. & Mfg	47¼	27⅞	98¾	32½	152	94½	150	4
Woolworth	55¼	41¼	65¼	51	63⅛	44¾	61⅝	2.40
Worthington Pump & Mach	31⅞	13½	25¼	11¾	35½	23⅛	30	....
Wrigley (Wm., Jr.)	76	54½	82¾	73¾	79	63	69	*3

*Annual Rate—not including extras. ‡ Paid this year.

The Dollar and World Currencies

(*Continued from page* 13)

even though it quite plainly at present has no desire to use that power.

Italy, judging from a prompt devaluation which restored the pre-1931 relationship between the lira and the dollar and the pound, is inclined to "string along" with the new alignment. Japan's professed intention to maintain the yen at its present greatly depreciated level, without change incident to the gold bloc revaluations, probably can be credited for the reason that she appears to have attained the maximum possible benefits already from currency depreciation. That is, further depreciation of the yen in all probability would touch off an excessive internal price rise, raising costs out of proportion to any likely international trade gain.

Outside of our own country's reciprocal tariff program, which is certain to be continued in the event President Roosevelt is re-elected in November, the prospect for any general and early lowering of trade barriers is even more obscure than the prospect of definite gold standard stabilization. Action by France and Italy in lowering certain tariffs and eliminating certain quotas, coincident with their currency revaluation, has little significance. Devaluation itself is equivalent to raising the tariff; and the degree of this increase more than outweighs the accompanying tariff reductions, the purpose of which was not idealistic freeing of world trade, but that of imposing a bar on excessive internal price increases.

Typical of the cautious jockeying for position in world trade that is still going on—and will continue to go on—representatives of Britain and France recently cordially exhorted each other at a meeting of the Economic Committee of the League of Nations to do something to open up international trade—but each carefully explained why his own nation was not in a position to take the lead or make any further concessions than had already been made!

So far as concerns immediate trade consequences of the reshuffling



92% OF STOCKHOLDERS OWN 100 OR LESS SHARES EACH

SMALL investors comprise the great bulk of the owners of Associated Gas and Electric Company. Of all the 135,048 holders of the Company's stocks—

92% own 100 shares or less, of which
49% own 11 to 100, and
43% own 10 or less.
Only 8% own more than 100.

Distribution of principal amounts of the Company's debentures and convertible obligations also shows wide holdings by small investors:

Amount of Holding	% of Amount Outstanding	Cumulative %
$100 or less	.9	.9
$101 to $1,000	19.9	20.8
$1,001 to $5,000	35.7	56.5
$5,001 to $10,000	12.7	69.2
$10,000 or more	30.8	100.0

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of currencies, it is apparent thus far that revaluation by France, Holland, Switzerland, Italy and Czechoslovakia has had no adverse effect upon our general commodity price structure—with minor and slight exceptions here and there. Theoretically, there *should* be a deflationary price tendency here, but the reflationary tendencies otherwise at work more than offset it. This is not surprising in view of our Government's deficit financing program and in view of the fact that the combined influence of all of the currencies recently revalued, in relation to our price structure, is far less than that of the pound sterling alone.

There will be some shifts of markets. Czechoslovakia now has an advantage over Japan in china, glassware, toys and novelties. Italy's trade in hats, silk, rayon fiber and other products will be helped. New York import and export men report that already scheduled trips of buyers to Japan have been cancelled and that buyers instead will be sent to France, Holland and Czechoslovakia. Temporarily, the United States will experience sharper competition in European orders for machinery, steel and various other finished goods. The heaviest impact, however, will fall upon Japan and Germany, which have had a considerable trade advantage for the past three years in the American, South American and European markets, due to yen depreciation and to Germany's flexible mark setup.

If any one upsets the apple cart sufficiently to dictate a revision of the present British-American-French monetary entente, it will be Germany or Japan or both. No one else has any inducement to do so.

Die-hard gold standard conservatives will ask: If currencies are back in the relationship that existed before the devaluation rush began, who has gained anything? The answer is that none has gained an enduring advantage in trade, but the world has gained the great advantage of a vastly expanded monetary base, low interest rates, beneficial refunding of public and private debt and a great reduction in aggregate weight of debt.

Whether European nations can compose their international quarrels, stabilize their internal economies and co-operate with the United States in the wise and effective use of this expanded money base in the interest of mankind—that is something else again, and certainly remains to be demonstrated.

How to Get the Most from Your Investments

(*Continued from page* 19)

to avail himself of later investment opportunities or to meet any financial emergencies which might require prompt realization of cash.

The strongest arguments in favor of a larger percentage of common stocks at this time are by no means predicated solely upon the disadvantages of fixed income securities. By this time every investor must be familiar with the merits of selected common stocks as a hedge against possible inflation. Moreover, the same sequence of events cited by Mr. McLaughlin which would have the ultimate effect of depressing bond prices would have exactly the opposite effect upon common stocks. Earnings and dividends would rise and be reflected in higher common stock values.

Actually, the investment risks in acquiring the better grade of common stocks are more apparent than real. Under any conditions, a good common stock is probably a safer investment than a second grade bond. A considerable list of common stocks might be compiled of those issues which maintained their dividends w i t h o u t interruption throughout the depression and which have an investment background thoroughly as satisfactory as many bond issues—even better in many cases. A common stock representing the sole equity in the assets and earnings of an established company may well be a much superior investment than, for example, a junior debenture issue of a holding company with a pyramided capital structure.

That many investors, both large and small, subscribe to the foregoing common stock investment theory, is attested by the strong demand and the substantial market gains scored by representative common stock issues over the past two years. In fact, appreciation in many issues has set a faster pace than dividends, with the result that many of the best common stocks currently yield less than gilt-edge bonds, and the ratio of quoted prices to earnings is fully as generous as it was in 1929.

There is, however, scant relation between the present setting and that of 1929. Whereas, in the latter year business was showing definite signs of wavering, today it is in the early stages of recovery from one of the most severe depressions in history. The shortages and obsolescence created during the depression have alone created a potential demand sufficient to insure a business boom for several years to come. Add to these the growth of population and the creation of many new products, and the stage is set for an industrial rehabilitation of sizable proportions and indefinite duration. Political uncertainties and national jealousies abroad are the main obstacles to the restoration of prosperity and even these have recently appeared to be less menacing. On the whole, therefore, considerable justification can be found the current level of common stock prices.

As to income possibilities for common stocks, the investor should bear in mind that the purchase of a common stock is the purchase of *potential* income. While a good common stock may yield only 2½ per cent at the moment, six months hence the yield may be increased to 3, 4 or 5 per cent by increased dividends or extra payments in the interim. The very fact that current yield is low reflects the expectation of higher dividends, while, on the other hand, it will be found that invariably those common stocks currently yielding 5 per cent or more represent companies whose earnings are more or less static and present dividends appear to be the maximum which can be expected, pending evidence of expanding profits.

Common stocks suitable for investment consideration at this time may be classified into two major groups. In one group will be found those companies which are identified with the manufacture of consumers' goods, services and retail trade. The nature of these industries is such that they were able to offer stiffer resistance to the depression and the general earnings and dividend records of most of the representative companies have been characterized by a relatively greater measure of stability and continuity.

These companies in the normal course of events will share the benefits of general business recovery, although the gain in earnings will be much less pronounced than is likely of those companies in the other group. The latter represents industries engaged in the manufacture of durable, or capital, goods such as building materials, machinery, railroad and farm equipment, electrical equipment, steel, copper, lead, etc. Companies in these fields felt the full force of the depression and only recently have earnings begun to record impressive gains. Having the longest road to travel and the most to gain from business recovery, it follows that the shares of the leading companies in this second group offer the more substantial returns both in the form of dividends and price appreciation.

It will be noted that the public utility and railroad stocks are conspicuously absent from the above groups. Their omission, however, does not imply a lack of merit but in both instances the presence of uncertain elements makes the outlook less clearly defined than in the case of most of the leading industries. The difficulties with which both the railroads and public utilities have had to cope are well known and require no reiteration here. It must be admitted, however, that record-breaking consumption of electric power and rising railroad traffic are doing much to alleviate the more immediate problems, and to that extent speculative opportunities are present in both groups. From a longer term investment standpoint, on the other hand, it would appear that the existing economic situation in the United States will require a greater degree of corporate elasticity than is possible in the operation of companies under public supervision. For this reason it appears advisable to restrict commitments in public utility and railroad shares.

Two lists of common stocks accompany this discussion. One is made up of issues which would meet the requirements of the more conservative investor, and one lists issues of a somewhat more speculative character for the investor in a position to assume a larger risk in the expectation of a greater measure of price appreciation. Dividend-paying issues predominate in both of these groups.

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THE SPOTLIGHT CAR OF 1937

Steel

(*Continued from page* 29)

materials and taxes—all relative to 1929—must be taken into account in figuring what can be earned at a given operating rate.

As a matter of fact there are strong circumstantial reasons for believing that the biggest maker of steel could not possibly duplicate, under present conditions, the $21.19 per share earned in 1929 even if it operated at the 1929 rate. For example, shipments of finished products by United States Steel in the second quarter of this year were about equal to shipments made in the third quarter of 1930, but operating profit for the second quarter was $8,768,265 below that in the third quarter of 1930. Expressed otherwise, the difference was $3.61 per ton of finished products shipped or an operating profit of $10.25 a ton against similar profit of $13.86 in the former period.

For less profitable operation there are various explanations. Lower prices in various important products than prevailed in 1929 and 1930 make a big difference. Rails, for example, are priced at $36.37½ per ton, as compared with $43 in 1930, the decrease being $6.62½ per ton. Again, labor costs are materially higher than in 1929. This is not by any means a matter merely of the hourly rate. A continuing effort to spread the available work means higher costs through more frequent shifts of crews than were made in 1929. Vacations for workers and group insurance are also added cost elements, as are the Social Security and general taxation.

We do not share the belief that United States Steel has "lost its grip," although its dominance of the industry is certainly not of the former degree. Nor is there any element of the invidious in pointing out that higher steel prices, as well as virtual capacity operation, will probably be needed to restore earnings to boom levels. On earnings substantially under the 1927-1929 level, much higher quotations for Steel common than now prevail would be justified.

As a generality the same observations as to reduced profit margins, as compared with 1929, may be applied to Bethlehem Steel, Youngstown Sheet & Tube and Jones & Laughlin Steel. Of these three Youngstown is farthest along the recovery road.

Youngstown earned $3.39 per common share in the first half of this year, against a deficit a year ago. For the year it is expected that it may earn as much as $8 a share. Dividends, however, may await elimination of preferred arrears of $19.25 per share.

The tip-off on steel stocks such as United States Steel, Bethlehem and Youngstown is that heavy steel products today are running 50 per cent above a year ago in volume, against some 25 per cent gain for light steel products. Such comparison, roughly, is likely to hold during the remaining weeks of the best year steel has had since 1929.

Motor Sales and Profits for 1937

(*Continued from page* 16)

next year is that each one of them will meet competition just a little keener than the extremely stiff competition of past years. But every well-established and active company today is used to this state of affairs and a sharp loss of relative position is the exception rather than the rule. Thus, with a favorable prospect of volume and earnings for the industry as a whole, the vast majority of companies in the automobile industry will make a better showing for their stockholders next year than the good showing they have made this. And for 1938? Certainly a sporting chance of a volume of production that will exceed the all-time peak of 1929.

The Stock Market After Election

(*Continued from page* 9)

unprecedented situation today in that the gold base for credit expansion is far greater than ever before, in the fact that the Government has closer control over money rates than ever before and in the fact that for an indefinite time to come, even after the Federal budget is balanced, the refinancing needs of the Treasury will dictate a cheap money policy. Therefore, while interest rates will rise in some degree from present levels, they are unlikely for some years to reach the 1928-1929 level and such rise as may occur will be of much greater concern to holders of gilt-edged bonds bought at present prices than to holders of sound common stocks.

Finally, there is the question whether the investor or the long term speculator should feel concerned because this bull market is in its fourth year, whereas prior to the 1920's most bull markets lasted no more than two years. Again there is a logical reason. Formerly we did not have a credit mechanism which permitted a simultaneous and long extended boom in business and in the stock market. There was not enough credit for both. After fifteen months to two years of expansion, demand for credit lifted short term interest rates sharply and the stock market promptly gave up the ghost.

Assuredly there will be a top to the present bull market, but there is no basis in the present credit setting for any prediction of it and past history is meaningless in this respect. Meanwhile, although one must watch the Government's budget policy, the Reserve Board's margin and bank reserve policies, the trend of industry, international currency developments, legislative policy at Washington and European political events, there is no basic change visible that should alter one's bullishness on the American prospect.

Mathieson Alkali Works Inc.

(*Continued from page* 35)

there were 23,777 shares of 7 per cent non-callable preferred stock of $100 par value. The company has obligated itself neither by funded debt nor mortgages, although notes payable to banks aggregated $950,000 at the end of last year.

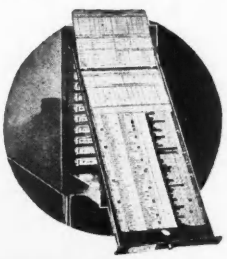
There are a number of factors to be taken into consideration in appraising the prospects of Mathieson Alkali. The most important is the question of volume. That Ma-

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A Permanent New Deal for Business?

By THOMAS L. GODEY

Third Quarter Earnings and Fourth Quarter Prospects

By EDWIN A. BARNES

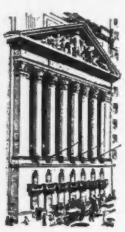
Outlook for Agricultural Equipment Companies

By C. M. MCCORD

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No. 30, quarterly, $1.25 per share

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No. 19, quarterly, $1.25 per share

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No. 33, 20¢ per share

payable on November 15, 1936, to holders of record at close of business October 20, 1936.

HOWLAND H. PELL, JR., *Secretary*

October 8, 1936

thieson will do a bigger business over the coming months than the company has done in the recent past seems as assured as anything can be in this uncertain world. In the petroleum industry consumption has been of record-breaking proportions and, if the number of cars that the automobile industry contemplates building has any relation to actuality, we are headed for new petroleum records next year. The textile industry generally is much more active: as for rayon, the demand is so great that it is a question of the manufacturers being able to fill it. Likewise, the outlook for paper is much improved; soap manufacturers are doing better and have recently raised prices. Building operations are up and the potential shortage of houses which has long been indicated by surveys is unquestionably gradually turning into an actual shortage. Should a building boom develop as many expect, glass manufacturers will be searching out Mathieson Alkali in increasing numbers, demanding soda ash. At the same time, the general improvement in business and the consequent enlargement of purchasing power is certain to better the demand for alkalis from all kinds of miscellaneous sources.

And what of the price factor? For the most part industrial alkalis are sold on a contract basis, the contract being signed late in one year for the requirements of the next. Hence, the new contracting period is almost here. It is not known definitely at what price the new contracts will be made, but the opinion of the trade varies from small increases in some lines to a general advance all around. It is important to note, however, that there is widespread agreement that the price trend is upwards. Assuming only moderate increases, this is a factor which, taken in conjunction with larger volume, should almost certainly spell increased earnings for the alkali companies.

There is, of course, the question of increasing costs, higher local and Federal taxes, the effects of the social security legislation. The natural tendency of all these cost factors is to reduce Mathieson's earnings, as it is to reduce the earnings of all companies. Sooner or later in the present recovery movement we shall reach the point where expenses rise faster than prices and volume, the net result being lower earnings. There is no indication, however, that we have reached this critical point as yet and, menacing as the present trend of costs and taxes is, corporate earnings should continue to offset them for some little time at least.

Among the points not as yet mentioned that are in favor of Mathieson Alkali, over and above those calculated to favorably affect the industry as a whole, is the fact that the new Lake Charles plant has hardly as yet hit its stride. This plant only started shipments at the end of January last year and it will naturally take considerable time to develop its full possibilities. Also, the company's gypsum business, another comparatively recent acquisition, had long been neglected and the plant has required substantial rehabilitation. Finally, there is the matter of research and the development of new products. As was said at the very beginning of this discussion, Mathieson Alkali Works is not a company from which one can expect frequent and startling new developments. This, however, does not preclude the company's striving for greater operating efficiency: nor is it to say that the company never develops something new. As a matter of fact the high-test hypochlorite, which contains a large percentage of chlorine and is easier to handle and cheaper to ship than liquid chlorine, is a substance that Mathieson has exploited only over the past few years.

From the standpoint of the investor, the common stock of the Mathieson Alkali Works (Inc.) at thirty-six dollars a share is cheaper on the basis of earning power and the yield it affords than the majority of chemical stocks. Part of the difference probably is justified on the grounds that Mathieson lacks the romance possessed by some of its chemical contemporaries but, even allowing for this, Mathieson seems to have been permitted to lag too far behind the market.

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Answers to Inquiries

(*Continued from page 48*)

greatly from an investment trust, although it has an advantage over the latter in that income is not solely dependent upon investments but is supplemented by premiums. While underwriting profits may continue restricted over the balance of the year as the result of lower rates, the indicated increase in income from stock holdings should not be overlooked. The stock currently is on a $1.20 annual dividend basis which may be increased or supplemented by additional extras. With indications pointing to further appreciation in portfolio securities and higher investment income, the stock at current levels of around the June 30 equity value of $39.60 a share appears suitable for further holding, although near term appreciation may be retarded by the indicated trend toward lower premium rates.

Great Northern Railway Co.

I am holding 150 shares of Great Northern preferred bought at 15. At present levels, do you feel it offers possibilities for further profits? Are early dividends now a possibility?—O. R. W., Boston, Mass.

Drought conditions in the Eastern end of the territory traversed by the lines of the Great Northern may restrict earnings of the road over the near term, but with shipments of ore and lumber products showing good gains, earnings for the year as a whole are expected to run well ahead of those for 1935 when the equivalent of $2.87 a share was reported. Agricultural conditions in the Pacific Northwest have been most satisfactory as have also general business conditions with the result that traffic in that section is registering good gains. From a longer range viewpoint, higher commodity prices, together with large Federal drought relief outlays should stimulate traffic in the grain producing sections tapped by this carrier. From a financial standpoint the road has made great progress over the past year, having successfully refunded the $100,000,000 general 7s maturing July 1, 1936, through the issuance of convertible 4s, due July 1, 1946. The saving in interest charges resulting from this move amounts to approximately $3,000,000 annually, a sizable figure when applied to the present outstanding one class 2,485,588 shares of preferred. Finances are in excellent shape. At the close of July, last, current assets totaled $33,340,000 including cash of $14,144,000 against current liabilities of $14,347,000. While the "Burlington" probably has been hit by the drought also, earnings gains registered by that road in the first half of the year should prove an offset and there seems to be little question as to a dividend payment to the Great Northern, at least as great as a year ago when $2 a share was received. When consideration is given to the inherent strength of the Great Northern and its ability to reflect earningswise improvement in the general economic condition of the country, the shares still appear reasonably priced. There is also the possibility of a dividend payment before the end of the year, in our opinion, which lends further attraction to the issue from the investor's standpoint.

Westinghouse Electric & Manufacturing Co.

I have 100 shares of Westinghouse Electric bought at 42 on a recommendation in your publication. I would like to know at this time what you think of its possibilities over the coming months, and if further retention is advocated.—W. J. H., Brooklyn, N. Y.

There is probably no field in which recovery has been more pronounced than in the electrical equipment industry, and it is not surprising, therefore, that Westinghouse, an outstanding representative of that field, should be most sensitive to recovery influences. While this consideration no doubt plays an important part in creating a demand which has forced the price of the stock to its current level, the actual record of accomplishments since the recovery began would be sufficient to account at least for a large part of the advance. The sales recorded by the company in the 1935 calendar year at approximately $122,500,000 show an increase from the 1933 figure of 87%. Before attaining to the 1929 sales volume, however, the company must still show an increase over 1935 of 68%. The results for the first half of the current year show an increase of 22% compared to the first half of 1935, so it is obvious that the trend toward that goal continues to progress. Share earnings were equal last year to $4.48 which may, for purposes of comparison, be placed against the $10.15 a share resulting from operations in 1929. Measured either on the basis of actual accomplishment in the past two and a half years, or on the basis of potential results from operations over the comings years, it must be granted that Westinghouse stock at present price levels still hold possibilities which seem to be rather clearly defined. The products of the company are an essential part of almost every phase of industry and are a prime factor in the progress toward higher living standards in this country. Even though no further progress were to be made in the future in the field of electrical equipment, the saturation point, if there be any, is still far in the distance. Research, and the development of new and improved devices and equipment, however, has been characteristic of the history of the industry in the past, and undoubtedly will have an important part in the future activities. There is no valid reason to suppose, therefore, that the attainments in the past necessarily mark a limit to which future operations shall be bound. We feel that in Westinghouse you hold an issue that may rightly be considered outstanding, and suggest retention of your holdings.

Ludlum Steel Co.

I have been holding 100 shares of Ludlum Steel bought at 23, on margin. I am in a position to take this stock up for investment, but before acting I would like to have your views on the appreciation and dividend possibilities.—E. J. D., Evanston, Ill.

Ludlum looks to further expansion in the automobile industry and in the production of machinery, implements, machine tools and engines requiring valves and parts demanding hardness and resistance to extreme heat and corrosion. It is in these types of specialty steels that Ludlum has developed its strong trade position. The prospect in this field is encouraging, and on the basis of this promising prospect we would forecast with reasonable assurance,

further extension of the gains in earnings recorded by Ludum since the depression low in 1932. The industries on which Ludlum relies for its business have reported a gain in activity since the depression which is outstanding. This is accounted for by several factors, among them the need for replacement of obsolete equipment, a demand for improved and more efficient products, and the demand for new designs for the production of newly developed products. Moreover the outlook is further brightened by the realization that probably the greatest strides in industry in the future will be in this direction, since the trend already exhibits an ever increasing demand for the type of machinery and machine tools necessary to highly efficient production. These are the considerations upon which we base our belief that appreciation possibilities in Ludlum stock are quite clearly defined. The company has had a splendid record, with the exception of course of the depression years. A strong financial status is maintained. The earnings currently show a satisfactory uptrend, the net sales for the first half of the current year were $4,700,000, approximately, comparing favorably with $3,000,000 shown for the first half of 1935. The company redeemed its preferred stock early this year, and there is no funded debt. The sole capital issue outstanding consists of the common stock. You have, therefore, a rather solid basis upon which to look for appreciation possibilities in this stock, based on future earning power, and it follows naturally that being free of senior capital obligations, the common stockholders should participate in these earnings.

Colorado & Southern Railway Co.

Please give us your opinion of Colorado & Southern common stock. We understand that the earnings of this company are encouraging, yet in view of our 9 points profit we are wondering if these earnings are adequately discounted in current prices.—R. S B., Los Angeles, Cal.

Since the consolidated income account of the Colorado & Southern and its affiliated companies in 1935 showed a net operating income equivalent to only 68% of the disbursements for fixed charges, and since therefore there was no balance for the common or preferred stockholders, it must be obvious that present price levels for the stock discount future earning power. That there is, however, apparently adequate justification for the expectation of such earning power in the future for the stockholders as would warrant present price levels, is revealed by an examination of the position of the road. Railway operating revenues gain in 1935 was 4% over the preceding year. There is a further gain so far in 1936, a substantial gain, and there remains the reasonable expectation of a continuation in the uptrend traffic volume. The trend in traffic in recent years has tended toward an increase in manufactures and miscellaneous products, from which higher revenues are received. In this class particularly is the uptrend noted in current reports. It may be noted further that general conditions, improvement in agriculture, increased production on sugar beets, in grain and cotton contribute much to make the prospect a promising one for the future. This road also serves the largest steel producer in the West and future reports should reflect an added volume of traffic from this source. In addition there is to be considered the matter of increased traffic in crude and refined petroleum products. It will be seen, therefore, that there is reason to conclude that this road is on the way toward recovery of earning power lost during the depression years. In 1929, on about double current gross revenues, this road showed earnings equal to $9.24 a share for its stockholders. While that goal is still well ahead of present attainment, it must be acknowledged that the trend is in the right direction and that the gains currently recorded are sufficiently encouraging to hope for restoration, in part at least, of the former earning power of this road. On that basis we would consider that the stock merits retention at present price levels.

Youngstown Sheet & Tube Co.

Youngstown Sheet & Tube has been recommended to me as an investment. In view of its considerable advance this year I would like to have your opinion of the outlook from here, also if you favor purchase at this time.—F. N., Albany, N. Y.

We incline to the opinion that future earning power of Youngstown will suffice to provide the basis for still higher price levels for the stock. In support of this opinion we would direct your attention to the recovery thus far made in sales and in earning power from the depression low in 1932 and then refer to 1929 results not because we believe necessarily that they will be duplicated in the near future, but by way of establishing a criterion of actual accomplishments. In that peak year sales totaled about $162,000,000, of which operating expenses and costs consumed about 78.5%. In that year earnings per share on stock outstanding were over $17. Since 1932 when a low in point of sales was recorded at about $31,000,000, sales have increased until the 1935 figure was approximately $86,700,000. In 1935 an operating income of about $11,800,000 shows an operating ratio of 86.4%. This comparison also shows that the company is able to reduce percentage operating expenses and costs on a larger volume of business, hence one may look to added earning power not only by reason of increased sales volume, but by reason of comparatively reduced operating expenses. The report for the first half of the current year shows total operating income at about $10,200,000, comparing with $4,300,000, approximately, for the first half of 1935; and a net income equal to $3.45 a share on the stock for that six months' interim. During recent years, Youngstown has expended an average of more than $10,000,000 annually for the improvement of its plants, which are well located and highly efficient. The company is completely integrated, owning its own sources of coal, limestone and ore, as well as interests in transportation properties. The management has kept pace with developments in the industry, having diversified products by extending facilities largely into the field of lighter steel, and is now in a position to profit by the demand for its products arising from expansion in oil, natural gas and water projects, building construction and railroad industry, as well as in the manufacture of automobiles and in many other fields. Certainly in any large forward movement in general industrial activity, such an outstanding enterprise should have an important share.

The Supreme Court Will Decide

(*Continued from page* 31)

Massachusetts, Ohio, and the Philippine Islands. Among the state laws involved in other suits are a flock of insurance laws including fire, life and war risk.

The extraordinary number of cases now coming before the Supreme Court which originate in fresh legislation is bound to revive the question of how to keep the Supreme Court from really becoming a third House of Congress instead of impinging upon substantive lawmaking only in settlement of fundamental controversies.

Cotton Must Go Up

(*Continued from page* 37)

bales which compares with a previous high mark of 13,999,000 bales. World consumption of foreign cotton ran up to 15,190,000 bales against a previous maximum in 1934-35 of 14,199,000 bales.

What the Southern cotton planter needs to meet the various determinations to increase acreage — in Brazil, in the Argentine, in Egypt, —is cotton—more—not less—and a free open world market. In free world competition American cotton can hold its market against all comers, if there is to be political price interference and regulation, that is another matter.

Understanding Today's Market Fluctuations

(*Continued from page* 41)

the call for a special stockholders meeting to authorize the sale of additional Class B stock to avoid tax and to provide additional working funds, whereupon the price of the stock dropped abruptly cancelling the preceding two days gains.

The graph accompanying this article shows the price and volume fluctuations in International Nickel

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The new chapters enlarge on taxes on undivided profits and contain a list of tax-exempt securities with typical examples and a table of yields. Finally, it shows you how to analyze your own tax position and gives specific advice on what to do before this year is over. For everyone who has money invested in the stock market this book is invaluable, particularly in view of the new tax laws effective in 1937.

THE YELLOW SPOT

Introduction by the Bishop of Durham **$3.00**

This book claims to be the first complete documentary study of the situation of the Jews in Germany today. Although most people are aware that dreadful things are happening in that country, they will be even more shocked by the facts as set down in this book.

Every side of life in Germany today is examined, the material including the statements of eye-witnesses and foreign correspondents, but being chiefly based on decrees and extracts from the official National Socialist Press.

There is an exhaustive examination of the STURMER and similar publications, with quotations from Nazi leaders exposing the emptiness of the pretense that they are not officially encouraged. Lastly, there is a chapter contrasting the popular with the official attitude to Jews and many instances are given of the resentment of the population at the measures taken against the Jews by the government.

YOUR FOOD SUPPLY

Allen H. Lester and Donald G. Ferguson **$1.00**

For those who manage the food supply of large organizations such as hospitals, restaurants, hotels, et cetera, this book will be extremely helpful. It seems impossible that the United States, the land of so much plenty and even burdensome surpluses could have changed as it has in the past four years. The blighting effects of unwise governmental experiments and of two disastrous droughts have eliminated the former surpluses to a degree which most people do not realize.

This booklet, written under the auspices of the American Institute for Economic Research, includes much practical advice on what to buy and store now, suitable substitutes, where to get information on preserving methods and others useful material. By wise action during the next few weeks, you can be assured of an adequate food supply at lower prices than possible in the ensuing winter months.

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A regular quarterly dividend of seventy-five cents (75¢) per share and an extra dividend of twenty-five cents (25¢) per share has been declared on the common stock of this Company, payable November 14, 1936, to stockholders of record at the close of business October 24, 1936. Books will not close.

J. B. JEFFRESS, JR., Treasurer.

LOEW'S INCORPORATED
"THEATRES EVERYWHERE"

October 9, 1936.

THE Board of Directors on October 7, 1936 declared a quarterly dividend of $1.62½ per share on the outstanding $6.50 Cumulative Preferred Stock of this Company, payable on the 14th day of November, 1936 to stockholders of record at the close of business on the 28th day of October, 1936. Checks will be mailed.

DAVID BERNSTEIN,
Vice-President & Treasurer

BRIGGS MANUFACTURING COMPANY

Dividend on Common Stock

Directors of Briggs Manufacturing Company have declared a regular quarterly cash dividend of fifty cents ($.50) per share and an extra cash dividend of fifty cents ($.50) per share on the outstanding non-par value stock of the company, payable October 31, 1936, to stockholders of record at the close of business October 17, 1936.

It depicts the successive formation of flat-topped triangles indicating the building up of technical strength which, in every case, finally resulted in penetration of the resistance levels represented by the approximate upper limits of the swings within the triangles outlined.

These triangles of accumulation are marked on the graph by the letters A, B, C, D and E; the mark-ups by the numerals 1, 2, 3 and 4. As far ahead as speculators can see, the outlook for International Nickel is for increasing earning power. It will be interesting to observe how far this bull movement will carry, and whether or not, when the time arrives for major *distribution* of the stock, its technical action will display tell-tale evidences of the fact.

Tax on Security Profits Abolished?

(*Continued from page* 25)

The owner now suddenly becomes conscious of the fact that every dollar of market change is a change affecting his own pocketbook. With his idea of the present over-valuation of stocks and with the tax removed, he can now afford to sell the stock for very much less than he could before, yet have more of the profit left for himself. And, sell he will. There would probably develop a grand rush to sell, and such selling would continue until security prices have readjusted themselves to an ex-tax basis. Then and only then, could it be expected that security markets would begin to benefit by the removal of the present artificial prop to security prices.

If all of this be true, then it certainly becomes mighty important for the security owner who is nursing along a large amount of unrealized profit, to find out what likelihood there really is for the complete elimination of the tax on capital gains, and if that possibility exists, when it is likely to occur.

The most that can be said now, is that there is a tendency in the direction of eliminating the tax. The proposal, however, represents such a radical change from our present plan of income taxation and would, in fact, be such an important departure from the basic tax principles followed here for so long a time, that the likelihood of a complete change in one single gulp appears to be quite remote. For the immediate future, perhaps, the most that can be expected is a gradual easing down of tax rates on security profits. And this, notwithstanding the fact that much has recently been said publicly, and in some instances by well-informed people, regarding the possibility that our next Congress will completely eliminate the tax on capital gains.

Yet, there is little doubt that the coming Congress will seriously concern itself with the subject of taxation. A Congressional committee is now busily engaged in a careful study of our entire tax system, and when their deliberations reach the public hearing stage, competent authorities are sure to press for the complete exclusion of capital gains and losses from tax calculations. Nevertheless, it does not appear likely that Congress will accede. Rather, is it more likely that there will be a gradual easing off towards an ultimate elimination of the tax.

Foster Wheeler Corp.

(*Continued from page* 43)

is not far off when new generating and transmission equipment must be considered. Nullification of the Public Utility Act of 1935 might well touch off the spark and release an important volume of utility construction.

At the end of last year the company had outstanding 17,518 shares of 7% preferred stock and 241,127 shares of common. Early this year 7,982 additional shares of common were issued. Dividends on the preferred stock have not been paid since April, 1933, accumulations now totaling $26.25 a share or about $460,000. With any reasonable revival in earnings these preferred arrears could be promptly liquidated. The market generously appraises common stock prospects and at 36, the shares reflect some measure of the improved prospects for the company. The comparatively small amount of common outstanding, however, suggests that the materialization of larger orders and earn-

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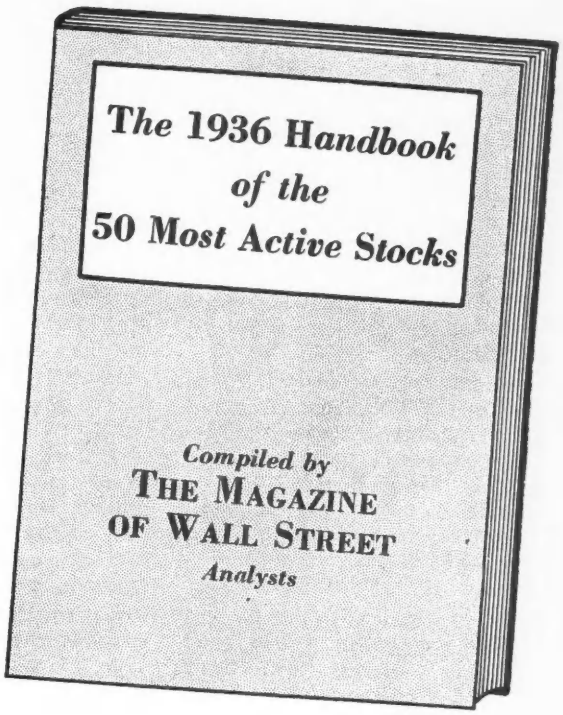
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ings would produce a rapid rise in per-share results.

Air Reduction Co.

It appears to be a virtual certainty that both revenues and earnings of Air Reduction this year will establish a new high record. Profits last year were the best since 1929 and were only about $700,000 less than the previous peak reached in the latter year. This evidence of exceptional industrial vitality coupled with the fact that cash dividends have been paid without interruption for more than a decade, and earned in every year but 1932, lends a considerable degree of investment quality to the shares. These same factors are largely responsible for the current high ratio to earnings at which the shares of Air Reduction are selling.

The company's principal source of revenues is the manufacture and sale of oxy-acetylene gases.

The total volume of sales reported by Air Reduction last year amounted to $20,865,439, less than $1,000,000 under the 1929 high and more than $9,000,000 above the 1932 low. In April of this year the capital stock was split three-for-one, increasing the number of shares outstanding to 2,532,066. On the basis of the larger number of shares, the 1935 profit was equivalent to $2.10 a share. In the first six months of the current year net applicable to the shares was equal to $1.32 a share as compared with $1 a share earned on a similar basis in the same months of 1935. For the full current year, the possibility that the shares may earn in excess of $2.50 appears to be well founded.

Two extra dividends of 50 cents and $1 respectively have been paid on the increased stock this year, in addition to regular quarterly payments of 25 cents. A strong financial position permits considerable latitude in the matter of dividends and stockholders are assured of increased and extra payments in pace with the trend of earnings. Aside from the specific factors cited, chemical stocks as a group are among the most favored equity investment. Unquestionably, therefore, the weight of favorable factors lends appeal to Air Reduction shares as a medium for potential enhancement and increasing dividends. Recent quotation, 75.

As I See It

(*Continued from page 7*)

by selling Travel Reichmarks at a discount of 40 per cent, or by purchasing twice the quantity of goods necessary to offset the credit.

The height of economic progress since the Nazi regime was attained this spring when Germany succeeded in balancing her trade, showing approximately 4 billion marks on both sides of the sheet. But the balance is precarious, for if exports drop even 1 billion, her problem would become acute. The threat of trade losses, moreover, is a real one. German prestige is now slipping in Middle and Southern Europe. Italy's quiet sponsorship of the Austrian coup represents the disaffection of her most powerful ally. At the same time the smaller countries of Middle Europe, which have swung in their allegiance among France, Italy and Germany, and were willing only as a last resort to ally themselves more or less with Germany for trade purposes, are now growing lukewarm toward German domination.

Finally, Germany's internal position is deteriorating. Admittedly, her expenditures for public works have not yet approached the limit of her domestic borrowing capacity, but the standard of living has been declining for the three and a half years that the Nazis have been in power, and so have wages, due to the necessity for dividing the work. The recent strike in the Opel Plant was caused by a further cutting of the hours of work, which in turn was made necessary by a shortage of raw materials. The workers complained that their income was already so meager that they could hardly keep body and soul together.

It is not to be wondered at, under the combination of all these circumstances, that the people are exhibiting less mute subjection to the Hitler regime. The younger element is becoming boldly more vocal and religious sects more openly resentful of state regulation as evidenced by the insistence on observance of the terms of the concordat between the Government and the Vatican. If such manifestations of popular unrest increase, the whole cause of Nazism is in jeopardy and so is Der Fuehrer. In his extremity he might easily embark on a war of external aggression. If this path be chosen, the way is surely paved.

Germany today is an armed camp. The preparation before Der Tag of 1914 would pale into insignificance beside the measures for defense and rapid offense that have been under way during the past year or more. The whole country has been organized, underground airplane hangars built, aviators schooled so rapidly that the daily total of student deaths reads like a war-time casualty list. Nor is the air the only field of preparation. Huge supplies of war materials have been accumulated. Armament factories are now operating as near capacity as the dearth of raw materials will permit. Communications and transportation have been highly organized, even an underground railway system for the possible movement of troops extends from Hamburg through Berlin, running under Unter den Linden clear to the Czechoslovakia border.

The present ruling regime of Germany is in a race against time. It is prepared to fight to save itself—even if it has to sacrifice the peace of the world to do it. Indeed, only one thing can prevent such a conflict—the overthrow of Hitler and his regime. That is now possible. By a coup last winter, the Reichswehr came into complete control—under the domination of the three ruling groups: The old landed aristocracy, the aristocracy which has come up since the time of Frederick the Great, and the industrial and financial aristocracy. Only Hitler's willingness to take the responsibility for everything—including the religious persecution—has kept him in power. It is quite possible, therefore, that if the aristocrats find it expedient to overthrow Hitler, they will do so without hesitation.

Happening in Washington

(*Continued from page 11*)

adjustment gave him only 288. This would still be ample for election, but the adjustment is subject to the basic weakness of the Digest poll—that its first returns omit big cities.